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PREFACE

The publication *Foreign Relations of the United States* constitutes the official record of the foreign policy of the United States. The volumes in the series include, subject to necessary security considerations, all documents needed to give a comprehensive record of the major foreign policy decisions of the United States together with appropriate materials concerning the facts that contributed to the formulation of policies. Documents in the files of the Department of State are supplemented by papers from other government agencies involved in the formulation of foreign policy.

The basic documentary diplomatic record printed in the volumes of the series *Foreign Relations of the United States* is edited by the Office of the Historian, Bureau of Public Affairs, Department of State. The editing is guided by the principles of historical objectivity and in accordance with the following official guidance first promulgated by Secretary of State Frank B. Kellogg on March 26, 1925.

There may be no alteration of the text, no deletions without indicating where in the text the deletion is made, and no omission of facts that were of major importance in reaching a decision. Nothing may be omitted for the purpose of concealing or glossing over what might be regarded by some as a defect of policy. However, certain omissions of documents are permissible for the following reasons:

> a. To avoid publication of matters that would tend to impede current diplomatic negotiations or other business.
>
> b. To condense the record and avoid repetition of needless details.
>
> c. To preserve the confidence reposed in the Department by individuals and by foreign governments.
>
> d. To avoid giving needless offense to other nationalities or individuals.
>
> e. To eliminate personal opinions presented in despatches and not acted upon by the Department. To this consideration there is one qualification—in connection with major decisions it is desirable, where possible, to show the alternative presented to the Department before the decision was made.

Documents selected for publication in the *Foreign Relations* volumes are referred to the Department of State Classification/Declassification Center for declassification clearance. The Center reviews the documents, makes declassification decisions, and obtains the clearance of geographic and functional bureaus of the Department of State, as well as of other appropriate agencies of the government.

The Center, in coordination with geographic bureaus of the Department of State, conducts communications with foreign governments regarding documents or information of those governments proposed for inclusion in *Foreign Relations* volumes.

John P. Glennon supervised the planning and final preparation of this volume while Paul Claussen directed its compilation. Charles S. Sampson compiled the documentation for 1951 and Carl N. Raether did the compilation for 1952–1954. Vicki E. Futscher performed the technical editing under the supervision of Rita M. Baker. Victoria L.V. Agee prepared the index.

William Z. Slany
The Historian
Bureau of Public Affairs

CONTENTS

Page

PREFACE III

LIST OF ABBREVIATIONS VII

LIST OF PERSONS XI

LIST OF SOURCES XIX

LIST OF SHORT TITLES XXI

The question of economic assistance to Iran; United States interest in the settlement of the Anglo-Iranian oil dispute, January-December 1951
- A. Events leading to the assassination of Prime Minister Razmara 1
- B. The formation of the Mosadeq government and the nationalization of the oil industry in Iran 25
- C. The Harriman mission 92
- D. The Anglo-Iranian Oil Company dispute at the United Nations 173
- E. The visit of Prime Minister Mosadeq to Washington and the interest of the World Bank in resolving the oil dispute 241

The question of military and economic assistance to Iran; interest of the United States in the settlement of the Anglo-Iranian oil dispute, 1952-1954 301

INDEX 1079

LIST OF ABBREVIATIONS

A, airgram
A/O, account of
Actel, series indicator for telegrams from Secretary of State Acheson while away from Washington
admin, administration
AIOC, Anglo-Iranian Oil Company
ALCSP, Arab League Collective Security Pact
Amb, Ambassador
AmEmb, American Embassy
AP, Associated Press
API, American Petroleum Institute
API Gravity, the standardized specific gravity of crude oil and refined products established by the American Petroleum Institute; specific gravity is the relative density of a volume of oil compared to the density of the same volume of water
ARAMCO, Arabian-American Oil Company
ARMISH, United States Military Mission with the Iranian Army
BMI, Bank Melli Iran
BNA, Office of British Commonwealth and Northern European Affairs, Department of State
BOAC, British Overseas Airways Corporation
BOB, Bureau of the Budget
BPD, barrels (of oil) per day
C, Counselor, Department of State
CA, circular airgram
CERP, Current Economic Reporting Program
CEV, series indicator for papers prepared in connection with the Churchill–Eden visit to Washington, June 25–29, 1954
CFM, Council of Foreign Ministers
CFP, Compagnie Francaise des Petroles
CGSAC, Commanding General, Strategic Air Command
CIA, Central Intelligence Agency
C.I.F., the cost, plus insurance and freight charges, of goods to the point of destination, all of which are included in the price quoted for the goods
CIGS, Chief of the British Imperial General Staff
CINC, Commander in Chief
CINCNELM, Commander in Chief, United States Naval Forces, Eastern Atlantic and Mediterranean
Con, Consul, Consulate
Cong, Congress of the United States; Congressional
conv, conversation
CUCTU, Central United Council of Trade Unions, Communist-dominated Iranian labor Organization
CZ, Canal Zone
DCI, Director of Central Intelligence
Def, Department of Defense
DefMin, Defense Minister; Defense Ministry
Depreftel, Department of State reference telegram
Deptel, Department of State telegram
DMPA, Defense Materials Procurement Agency
DMS, Director for Mutual Security
DOD, Department of Defense
Dulte, series indicator for telegrams from Secretary of State Dulles while away from Washington
E, Assistant Secretary of State for Economic Affairs; Bureau of Economic Affairs, Department of State
EDC, European Defense Community
Emb, Embassy
Embdes, Embassy despatch
Embtel, Embassy telegram
EPU, European Payments Union
EUR, Bureau of European Affairs, Department of State
Eximbank, Export-Import Bank of Washington
FOA, Foreign Operations Administration
f.o.b., free on board; indicates that the price of a commodity when delivered does not include the costs of insurance or freight
FonMin, Foreign Minister; Foreign Ministry
FonOff, Foreign Office

FonSec, Foreign Secretary
FY, fiscal year
FYI, for your information
G, Deputy Under Secretary of State; Office of the Deputy Under Secretary of State
GA, General Assembly of the United Nations
GENMISH, United States Military Mission to the Imperial Iranian *Gendarmerie*
GOI, Government of Iran
GTI, Office of Greek, Turkish, and Iranian Affairs, Department of State
HBM, His/Her Britannic Majesty
HICOG, United States High Commissioner for Germany
HIM, His Imperial Majesty
HMG, His/Her Majesty's Government
IAC, Intelligence Advisory Committee
IBRD, International Bank for Reconstruction and Development (World Bank)
ICJ, International Court of Justice
IMF, International Monetary Fund
IPC, Iraq Petroleum Company
IWA, International Wheat Agreement
JCS, Joint Chiefs of Staff
KLM, Royal Dutch Airlines
MA, Military Attaché
MAAG, Military Assistance Advisory Group
MDA(P), Mutual Defense Assistance (Program)
ME, Middle East
MFA, Ministry for Foreign Affairs
MSA, Mutual Security Act; Mutual Security Agency
MSP, Mutual Security Program
MTL, series indicator for papers prepared in connection with bipartite and tripartite meetings of the Foreign Ministers of France, the United Kingdom, and the United States at London in late June 1952
mytel, my telegram
NAC, National Advisory Council on International Monetary and Financial Problems; North Atlantic Council
NAT Act, Iranian Nationalization of Oil Act, March 8, 1951
NATO, North Atlantic Treaty Organization
NE, Office of Near Eastern Affairs, Department of State
NEA, Assistant Secretary of State for Near Eastern, South Asian, and African Affairs; Bureau of Near Eastern, South Asian, and African Affairs, Department of State
NF, National Front
niact, night action, communications indicator requiring attention by the recipient at any hour of the day or night
NIE, National Intelligence Estimate
NIOC, National Iranian Oil Company
noforn, no foreign dissemination
NSC, National Security Council
OARMA, series indicator for telegrams from the Office of the Army Attaché
OCB, Operations Coordinating Board
ODMS, Office of the Director, Mutual Security Agency
OEEC, Organization for European Economic Cooperation
OFMA, Office of Military Assistance, Department of Defense
OM/I (OMI), Operations Mission, Iran
OSD, Office of the Secretary of Defense
PA, purchase authorization
PED, Petroleum Policy Staff, Office of International Materials Policy, Department of State
PLATTs low, the discount subtracted from the United States Gulf of Mexico posted price for individual petroleum products
PM, Prime Minister
Posted Price, the arbitrary value placed upon a barrel of crude oil for the purpose of computing the amount of revenue the company must pay as a royalty to the host country
PPS, Policy Planning Staff, Department of State
PriMin, Prime Minister
PSB, Psychological Strategy Board
reftel, reference telegram
RFC, Reconstruction Finance Corporation
S, Secretary of State; Office of the Secretary of State
S/MSA, Special Assistant to the Secretary of State for Mutual Security Affairs
S/P, Policy Planning Staff, Office of the Secretary of State
S/S, Executive Secretariat, Department of State
SAC, Strategic Air Command
SCEM, series indicator for papers prepared in connection with bipartite and tripartite meetings of the Foreign Ministers of France, the United Kingdom, and the United States at Paris in late May 1952

SEATO, Southeast Asia Treaty Organization

Secto, series indicator for telegrams to the Department of State from the Secretary of State (or his delegation) at international conferences

SOA, Office of South Asian Affairs, Department of State

Sov, Soviet

SPOT Market, the sale of goods such as crude oil, wheat, corn, or any other commodity for cash and immediate delivery

SVCATTS, service attachés

TCA, Technical Cooperation Administration, Department of State

TCI, Technical Cooperation, Iran

TCT, series indicator for papers prepared in connection with the visit to the United States of British Prime Minister Winston Churchill, January 5–10, 1952

Tecto, series indicator for telegrams from the Foreign Operations Administration in Washington to Technical Cooperation Missions overseas

Tedul, series indicator for telegrams to Secretary of State Dulles while away from Washington

Telac, series indicator for telegrams to Secretary of State Acheson while away from Washington

telecon, telecommunication conference

TIAS, Treaties and Other International Acts Series

Topol, series indicator for telegrams to the Office of the United States Permanent Representative on the North Atlantic Council, at Paris

Tosec, series indicator for telegrams from the Department of State to the Secretary of State (or his delegation) at international conferences

Totec, series indicator for telegrams to the Foreign Operations Administration in Washington from Technical Cooperation Missions overseas

Tousfo, series indicator for telegrams and airgrams to the Foreign Operations Administration in Washington from its missions overseas

U, Under Secretary of State; Office of the Under Secretary of State

UN, United Nations

UNGA, United Nations General Assembly

unn, unnumbered

urtel, your telegram

USA, United States Army

USAF, United States Air Force

USFOTO, series indicator for telegrams and airgrams from the Foreign Operations Administration in Washington to its missions overseas

USG, United States Government

USIA, United States Information Agency

UNMC, United States Maritime Commission

USOM, United States Operations Mission

USOM/I, United States Operations Mission, Iran

UST, United States Treaties Series

USOME, United States Operations Mission for Education

VOA, Voice of America

LIST OF PERSONS

Acheson, Dean G., Secretary of State until January 20, 1953

Afshartus, Brigadier General Mahmud, Iranian Army; Chief of Police in Tehran, Iran, until April 1953

Ala, Hosein, Prime Minister of Iran, March 11–April 27, 1951; Iranian Minister of Court, April 1951–April 1953, and after August 1953

Aldrich, Winthrop W., Ambassador in the United Kingdom from February 20, 1953

Allen, D.A.V., Assistant Secretary of the British Treasury

Amini, Abol Qasem, Iranian Minister of Court, May–August, 1953

Amini, Dr. Ali, Iranian Minister of Finance after August 20, 1953

Amini-Majdi, General Mahmud, Iranian Army; Commander in Chief of the the Iranian Imperial *Gendarmerie* until August 20, 1953; thereafter Military Attache in France

Anderson, Robert B., Secretary of the Navy after February 4, 1953; Deputy Secretary of Defense after May 3, 1954

Armstrong, William, Private Secretary to the British Chancellor of the Exchequer

Austin, Warren R., Permanent Representative of the United States at the United Nations until January 22, 1953

Baharmast, General Qolam Mahmud, Chief of Staff of the Iranian Army, October 1952–March 1953

Baqai (Baghai), Dr. Mozaffar, founder of the Workers Party, a component of Mosadeq's National Front; Deputy in the 17th Majlis, 1952–1953

Barnes, Robert G., Deputy Director of the Policy Reports Staff in the Executive Secretariat, Department of State, from September 2, 1951; Attache in the Embassy in the United Kingdom after April 2, 1952; detailed to the Embassy in France after May 12, 1952

Barnes, Stanley N., Assistant Attorney General in the Anti-Trust Division, Department of Justice, after 1953

Batmanqilich (Batmangelich), General Nader, Chief of Staff of the Iranian Army after August 19, 1953

Battle, Lucius D., Special Assistant to the Secretary of State from June 26, 1951; Foreign Affairs Officer in the Office of the Special Assistant to the Secretary of State for Mutual Security Affairs after October 13, 1952; Attache in the Embassy in Denmark after July 26, 1954

Baxter, William O., Deputy Director of the Office of Greek, Turkish, and Iranian Affairs, Department of State, June 20, 1952–October 10, 1954; thereafter Director

Bayat, Morteza Qoli, Managing Director of the National Iranian Oil Company

Beckett, Sir William Eric, Legal Adviser to the British Foreign Office until May 3, 1953

Beeley, Harold, Counselor of the British Embassy in the United States after February 18, 1953

Berry, Burton Y., Acting Assistant Secretary of State for Near Eastern Affairs, December 1951–June 1952; Ambassador in Iraq, June 25, 1952–May 3, 1954

Black, Eugene R., President and Chairman of the Executive Directors of the International Bank for Reconstruction and Development after 1949.

Black, Robert B., Economist in the Bureau of the Budget, 1949–1952; Budget Examiner in the Mutual Security Agency from October 12, 1952; Chief of Near East Programs in the Office of the Deputy Director for Program and Planning in the Foreign Operations Administration after March 28, 1954.

Bohlen, Charles E. (Chip), Counselor of the Department of State and member of the Senior Staff, National Security Council, until March 1953; Ambassador in the Soviet Union from April 20, 1953.

Bonbright, James C.H., Jr., Deputy Assistant Secretary of State for European Affairs, June 1950–April 1954.

Brown, Ben H., Jr., Deputy Assistant Secretary of State for Congressional Relations from May 29, 1949.

Brownell, Herbert, Jr., Attorney General of the United States, January 21, 1953–November 8, 1957.

Bruce, David K.E., Ambassador in France until March 10, 1952; Under Secretary of State, April 1, 1952–January 20, 1953; Consultant to the Secretary of State until February 8, 1953; thereafter Observer at the Interim Committee of the European Defense Community at Paris and Representative to the European Coal and Steel Community.

Burrows, Bernard B.A., Counselor of the British Embassy in the United States, January 1950–July 1953.

Busheri (**Bushari**), Javadi, Iranian Minister of Roads, April 1951–July 1952; appointed Senator in 1953.

Butler, Victor S., Under Secretary in the British Ministry for Fuel and Power.

Butterworth, W. Walton, Ambassador in Sweden after September 18, 1950; Deputy Chief of Mission in the United Kingdom after December 10, 1953.

Byroade, Henry A., Director of German Affairs, Department of State, until April 1952; Assistant Secretary of State for Near Eastern, South Asian, and African Affairs from April 14, 1952.

Cabell, Lieutenant General Charles P., USAF, Director of the Joint Staff, Joint Chiefs of Staff, until January 1953; Deputy Director of Central Intelligence after April 23, 1953.

Caccia, Sir Harold A., British Deputy Under Secretary of State for Foreign Affairs after February 1, 1954.

Churchill, Winston S. (Sir Winston from April 24, 1953), Prime Minister of the United Kingdom and First Lord of the Treasury from October 26, 1951.

Crowl, Richard B., International Economist in the Office of Greek, Turkish, and Iranian Affairs, Department of State.

Cutler, Robert, Administrative Assistant to President Eisenhower, January–March 1953; thereafter Special Assistant to the President for National Security Affairs.

Dixon, Ben F., Acting Officer in Charge of Greek Affairs, Office of Greek, Turkish, and Iranian Affairs, Department of State, from October 1951; Foreign Affairs Officer in the Bureau of Near Eastern, South Asian, and African Affairs after May 1952.

Dixon, Sir Pierson (John), British Deputy Under Secretary of State for Foreign Affairs from June 5, 1950; Representative on the Brussels Treaty Permanent Commission and Representative at the United Nations after March 13, 1954.

Dorsz, Edmund J., Deputy Director of the Office of Greek, Turkish, and Iranian Affairs, Department of State, until May 1952.

Dulles, Allen W., Deputy Director of Central Intelligence from August 1951; Director of Central Intelligence after January 1953.

Dulles, John Foster, Consultant to Secretary of State Dean Acheson and Personal Representative of President Truman for the Japanese Peace Treaty; Secretary of State after January 21, 1953.

Eakens, Robert S.H., Chief of the Petroleum Policy Staff, Office of International Materials Policy, Department of State, from October 3, 1949; Chief of the Petroleum Staff after August 10, 1953.

Earman, S.J., Executive Assistant to the Director of Central Intelligence, 1952.

Ebtehaj, Abol Hassan, Iranian Ambassador in France, 1950–1952; Adviser to the Managing Director of the International Monetary Fund, 1953–1954.

Eden, Anthony (Sir Anthony from 1954), British Secretary of State for Foreign Affairs after October 27, 1951.

Edgerton, Major General Glen E. (ret.), United States Army; Managing Director and President of the Export-Import Bank of Washington, 1953–1954.

Eisenhower, General of the Army Dwight D., Supreme Allied Commander, Europe, April 2, 1951–May 30, 1952; President of the United States after January 20, 1953.

Emmerglick, Leonard J., Attorney, Anti-Trust Division, Department of Justice, until September 1954.

Entezam, Abdollah, Iranian Minister of Foreign Affairs after August 1953.

Entezam, Nasrollah, Iranian Ambassador in the United States, September 18, 1950–September 18, 1952, and after November 2, 1953.

Farley, Hugh D., Assistant Executive Secretary of the National Security Council until 1954.

Fatemi (**Fatimi**), Hossein, Iranian Minister of Foreign Affairs and Confidant of Iranian Prime Minister Mosadeq, October 1952–August 1953.

Ferguson, C. Vaughan, Officer in Charge of Iranian Affairs, Office of Greek, Turkish, and Iranian Affairs, Department of State, until July 1952.

Ferguson, John Haven, Deputy Director of the Policy Planning Staff, Department of State, April 1, 1951–August 12, 1953.

Fisher, Adrian S., Legal Adviser of the Department of State, June 28, 1949–January 27, 1953.

FitzGerald, Dennis A., Associate Deputy Director of the Mutual Security Agency, after May 19, 1952; Deputy Director for Operations in the Foreign Operations Administration after October 12, 1953.

Flett, M.T., Counselor to the British Economic Minister in the United States and Head of the British Treasury and Supply Delegation, 1952–1954.

Foster, Austen T., General Counsel for the Socony Vacuum Oil Company after 1948.

Franks, Sir Oliver S., British Ambassador in the United States from June 3, 1948, until February 13, 1953.

Fraser, Sir William, Chairman of the Board, Anglo-Iranian Oil Company.

Frechtling, Louise E., Staff member, Office of the Special Assistant to the Secretary of State for Mutual Security Affairs, 1954.

Garner, Robert L., Vice President of the International Bank for Reconstruction and Development after March 4, 1947.

Gass, N.A., Managing Director of the Anglo-Iranian Oil Company.

Gaston, Herbert E., President and Chairman of the Board of Directors, Export-Import Bank, until January 1953.

Gifford, Walter S., Ambassador in the United Kingdom until January 23, 1953.

Gillette, Guy M., Democratic Senator from Iowa; member, Senate Foreign Relations Committee.

Gleason, S. Everett, Deputy Executive Secretary of the National Security Council after January 1950

Gray, Helen P., staff member, Office of Greek, Turkish, and Iranian Affairs, Department of State

Haerizadeh, Seyed Abol Hasan, Leader of the Iran Party, a component of Mosadeq's National Front; Deputy in the 18th Majlis, 1954

Hakimi, Ebrahim, former Prime Minister of Iran, 1945 and 1948; Senator from Tehran and President of the Iranian Senate, 1954

Harden, Orvil, Vice President and Director of Standard Oil Company of New Jersey after April 1935; member of the Standard Oil Company's Executive Committee as of 1935; Vice Chairman of the Executive Committee after 1937

Harriman, W. Averell, Special Assistant to the President until November 1951; Director for Mutual Security, November 1951–January 1953

Hassibi (**Hasibi**), Kazem, Associate of Iranian Prime Minister Mosadeq; leader of the Iranian National Front; Deputy in the 17th Majlis, 1952–1953

Hejazi, Major General Abdol Hossein, Iranian Army; Commanding General of the 3d Corps of the Iranian Army; Military Adviser to the Shah after September 1953

Henderson, Loy W., Ambassador in Iran, September 29, 1951–December 30, 1954

Holmes, Julius C., Minister in the United Kingdom, April 1951–December 1953; Senior European Political Adviser, U.S. Delegation to the Ninth Session of the General Assembly, November 1954; Special Assistant to the Assistant Secretary of State for European Affairs after December 1954

Hoover, Herbert, Jr., Appointed Consultant to the Secretary of State, October 14, 1953; Under Secretary of State, October 4, 1954–February 5, 1957

Humphrey, George M., Secretary of the Treasury after January 21, 1953

Imam (**Imami**), Jumeh (Jamal), President of the Iranian Majlis until July 1952

Jackson, C.D., Special Assistant to the President, February 26, 1953–March 31, 1954; Representative, U.S. Delegation to the Ninth Session of the General Assembly, November 1954

Jebb, Sir Gladwyn Hubert Miles, British Permanent Representative at the United Nations after June 1950; Ambassador in France after April 1954

Jernegan, John D., Deputy Assistant Secretary of State for Near Eastern, South Asian, and African Affairs after June 26, 1952

Jones, W. Alton, President of City Services Company, Incorporated, 1940–1953; Chairman of the Board, City Services Company, Incorporated, after 1953

Kashani, Seyed Ayatollah Abdol Ghassem, Iranian religious leader; founder of Fedayan Islam in 1948; principal leader in the Iranian National Front; President of the 17th Majlis, 1952–1953

Kazemi, Seyed Baqer, Iranian Minister of Foreign Affairs, April 1951–June 1952; Deputy Prime Minister of Iran and Minister for Finance, July 1952–August 1953

Kiani, General Ataollah, Deputy Chief of Staff of the Iranian Army until August 19, 1953

Koegler, George, Assistant to the President of Standard Oil Company of New Jersey

Lay, James S., Jr., Executive Secretary of the National Security Council after January 1950

Leathers of Purfleet, Lord (Frederick James Leathers), British Secretary of State for the Coordination of Transport Fuel and Power after October 1951.

Levy, Walter J., Consultant to the Department of Defense, 1951–1954; Economic Consultant on Oil, Adviser to W. Averell Harriman on his mission as Special Representative of President Truman in Iran, July–September 1951; Consultant to the National Security Resources Board, 1952; Consultant to the Policy Planning Staff, Department of State, 1952–1953.

Linder, Harold F., Deputy Assistant Secretary of State for Economic Affairs from February 15, 1951; Assistant Secretary of State for Economic Affairs, December 12, 1952–May 15, 1953.

Lovett, Robert A., Secretary of Defense, September 1951–January 1953.

McClure, Brigadier General Robert A., United States Army; Chief of the United States Military Mission with the Iranian Army and Chief of the United States Military Assistance Advisory Group in Iran after 1953.

McGhee, George, Assistant Secretary of State for Near Eastern and South Asian Affairs until December 18, 1951; Ambassador to Turkey, January 15, 1952–June 19, 1953.

McGranery, James P., Attorney General of the United States, May 27, 1952–January 21, 1953.

McNair, Lord (Sir Arnold Duncan McNair,) Judge on the International Court of Justice at the Hague, 1946–1955; President of the International Court of Justice, 1952–1955.

Maki, Hosein, Confidante of Iranian Prime Minister Mosadeq; member, Board of Directors of the National Iranian Oil Company until December 1952; Deputy in the 17th Majlis, 1952–1953.

Makins, Sir Roger M., British Deputy Under Secretary of State for Foreign Affairs until December 30, 1952; British Ambassador in the United States after January 7, 1953.

Mansour (Mansur), Ali, Prime Minister of Iran from 1950; Iranian Ambassador in Turkey after 1954.

Matthews, H. Freeman, Deputy Under Secretary of State, July 5, 1950–October 11, 1953; Ambassador in the Netherlands from November 25, 1953.

Mattison, Gordon H., Counselor of Embassy in Iran, April 1952–October 1953.

Maud, Sir John R.P., Permanent Secretary in the British Ministry of Fuel and Power after 1952.

Merchant, Livingston T., Special Assistant to the Secretary of State for Mutual Security Affairs until March 24, 1952; Deputy to the United States Special Representative in Europe at Paris until March 11, 1953; thereafter Assistant Secretary of State for European Affairs.

Metzger, Stanley D., Assistant Legal Adviser for Economic Affairs, Department of State, after April 29, 1951.

Middleton, George H., British Counselor of Embassy in Iran after January 20, 1951; Acting Chargé d'Affaires, January 20–October 31, 1952; Deputy British High Commissioner for India after April 1, 1953.

Morrison, Herbert S., British Secretary of State for Foreign Affairs, March 9–October 26, 1951.

Mosadeq (Mossadeq), Dr. Mohammad, Leader of the Iranian National Front; Prime Minister of Iran, April 1951–July 5, 1952, July 11–July 16, 1952; Prime Minister of Iran and Iranian Minister of Defense, July 22, 1952–August 15, 1953.

Murphy, Charles S., Special Counsel to President Truman, 1952.

Nasiri, Colonel Nematollah, Iranian Army; Commander of the Iranian Imperial Guard after 1954; responsible for delivering the Shah's order of dismissal to

Prime Minister Mosadeq on August 16, 1953, and subsequently for arresting Prime Minister Mosadeq.

Nasser, Ali Asqar, Acting Governor of the Bank Melli Iran, 1951-1952; Governor after 1952.

Nitze, Paul H., Director of the Policy Planning Staff, Department of State, January 1950-April 1953.

Nixon, Richard M., Republican Senator from California, January 1952-January 1953; thereafter Vice President of the United States.

Nolting, Frederick E., Jr., Special Assistant to the Deputy Under Secretary of State from October 14, 1951; Acting Special Assistant to the Secretary of State for Mutual Security Affairs after August 4, 1953; Special Assistant to the Secretary of State for Mutual Security Affairs after January 4, 1954.

Ohly, John H., Assistant Director for Policy and Program Development in the Office of the Director for Mutual Security after October 14, 1951; Assistant Director for Programs in the Office of the Director for Mutual Security after April 17, 1952; Deputy to the Director for Program and Coordination in the Mutual Security Agency after March 23, 1953; Deputy Director for Program and Planning in the Foreign Operations Administration after October 1, 1953.

Page, Edward, Jr., Counselor in the Office of the United States Special Representative in Europe, at Paris; United States Representative on the Brussels Treaty Working Party after June 1953.

Pahlavi, Prince Ali Reza, younger brother of Mohammad Reza Shah Pahlavi, Shah of Iran; next in the line of succession to the throne.

Pahlavi, Princess Ashraf, twin sister of Mohammad Reza Pahlavi, Shah of Iran.

Pahlavi, Mohammad Reza, Shah of Iran.

Pahlavi, Soraya Esfandiari-Bakhtiari, Queen of Iran after February 1951.

Penfield, James K., Counselor of Embassy in the United Kingdom after July 18, 1950; Deputy Chief of Mission in Austria after August 13, 1954.

Perkins, George W., Assistant Secretary of State for European Affairs until January 31, 1953.

Phleger, Herman, Legal Adviser of the Department of State from February 2, 1953.

Pirnia, Baqer, Under Secretary of the Iranian Ministry of Finance until 1958.

Prud'homme, Hector C., Loan Officer, International Bank for Reconstruction and Development.

Qavam es Sultaneh, Ahme, Prime Minister of Iran, 1942-1943, 1946-1947, and July 16-July 22, 1952.

Radford, Admiral Arthur W., United States Navy; Chairman of the Joint Chiefs of Staff after August 15, 1953.

Rau, B.N., Indian Representative at the United Nations.

Raynor, G. Hayden, Director of the Office of British Commonwealth and Northern European Affairs, Department of State, from March 4, 1951.

Razmara, Lieutenant General Haji Ali, Iranian Army; Prime Minister of Iran, June 26, 1950-March 7, 1951.

Riahi, Brigadier General Taqi, Chief of Staff of the Iranian Army, March 1-August 19, 1953.

Richards, Arthur L., Counselor of Embassy in Iran after May 24, 1949; Director of the Office of Greek, Turkish, and Iranian Affairs, Department of State, after June 23, 1952; Consul General in Istanbul after September 15, 1954.

RIDGWAY, General Matthew B., United States Army; Supreme Allied Commander in Europe, June 1952–May 1953; Chief of Staff of the United States Army, August 1953–June 30, 1955.

RIEBER, Torkild, Chairman of the Board of the Texas Oil Company, 1935–1940; Technical Oil Adviser, International Bank for Reconstruction and Development; President of the Barber Oil Company, 1942–1956.

ROUHANI, Fuad. *See* Ruwni, Fuad.

ROUNTREE, William M., Director of the Office of Greek, Turkish, and Iranian Affairs, Department of State, from August 7, 1950; Deputy Chief of Mission in Turkey from June and Counselor of Embassy from August 1952; Counselor of Embassy in Iran after October 1953.

RUWANI, Fuad, Director General and Legal Adviser of the National Iranian Oil Company after August 1953.

SALEH, Ali Pasha, Iranian Consultant to the United States Embassy in Iran.

SALEH, Allahyar, Leader of the Iran Party, a component of Mosadeq's National Front; Iranian Ambassador in the United States from September 1953.

SALISBURY, Lord (Robert A.J.G. Cecil), British Secretary of State for Commonwealth Relations, March–December 1952; Acting Secretary of State for Foreign Affairs, June–October 1953.

SANJABI, Dr. Karim, Professor of Adminstrative Law at the University of Tehran; Confidante of Prime Minister Mosadeq; Iranian Minister of Education, April–December 1951; participant in the Anglo-Iranian Oil Company case as a judge on the International Court of Justice, 1952; Deputy in the 17th Majlis, 1952–1953.

SAUER, Walter C., Vice President of the Export-Import Bank, 1952–1953.

SERPELL, David Radford, Under Secretary in the British Treasury after 1954.

SHAYEGAN (SHAYGAN), Dr. Seyid Ali, Iranian jurist and a confidante of Prime Minister Mosadeq; member of the Iran Party and a leader of the National Front; Deputy in the 17th Majlis, 1952–1953.

SHEPHERD, Sir Francis M., British Ambassador in Iran until January 20, 1952.

SMITH, Walter Bedell, Director of Central Intelligence after October 7, 1950; Under Secretary of State, February 9, 1953–October 1, 1954.

SNOW, Harold E., Deputy Director of the Anglo-Iranian Oil Company after 1946; Managing Director after 1952.

SOHELY, Ali, Iranian Ambassador in the United Kingdom until January 1952 and after March 1954.

STASSEN, Harold E., Director for Mutual Security after January 20, 1953; Director of Foreign Operations after August 1, 1953.

STEEL, Sir Christopher, British Minister in the United States, November 1, 1950–July 15, 1953.

STEVENS, Sir Roger B., British Ambassador in Sweden after December 1951; British Ambassador in Iran after February 1954.

STOKES, Richard R., Lord Privy Seal with the British Labour Government until April 1951; British Minister of Materials, July–October 1951.

STRANG, Sir William, British Permanent Under Secretary of State for Foreign Affairs until November 1953.

STUTESMAN, John H., Jr., Second Secretary and Consul in Iran after June 20, 1952; Officer in Charge of Iranian Affairs, Office of Greek, Turkish, and Iranian Affairs, Department of State, after September 15, 1952.

THORP, Willard L., Assistant Secretary of State for Economic Affairs until November 15, 1952.

TRUMAN, Harry S., President of the United States until January 20, 1953.

Vandenberg, General Hoyt S., Chief of Staff of the United States Air Force until June 29, 1953.

Warne, William E., Director of the United States Technical Cooperation Administration Mission in Iran after November 8, 1951.

Waugh, Samuel C., Assistant Secretary of State for Economic Affairs after June 5, 1953.

Wilson, Charles Erwin, Secretary of Defense after January 28, 1953.

Wooldridge, Rear Admiral Edmund T., United States Navy; Senior Staff Representative of the Joint Chiefs of Staff on the National Security Council until 1954; Vice Admiral as of April 1954.

Wright, Denis A.H., Head of the Economic Relations Department in the British Foreign Office until December 1953; thereafter Counselor of the British Embassy in Iran.

Wright, Vice Admiral Jerauld, United States Navy; United States member on the North Atlantic Treaty Organization Standing Group; Commander in Chief of the United States Naval Forces in the Eastern Atlantic and Mediterranean, 1952–1954.

Yazdanpanah, Lieutenant General Morteza, Iranian Army; Iranian Minister of War, December 1951–June 1952; Aide de Camp to the Shah of Iran, 1954.

Zahedi, Ardeshir, son of Prime Minister Fazlollah Zahedi of Iran; Administrative Deputy in the United States Point Four Mission, 1950–1952; Civil Adjutant to the Shah of Iran after August 1953.

Zahedi, Major General Fazlollah, Iranian Army member of the Iranian Senate until August 1953; Prime Minister of Iran and Minister of the Interior, August 15, 1953–April 6, 1955.

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Department of State files

Bohlen Files, Lot 74 D 379

Records maintained by Ambassador Charles E. Bohlen, 1942–1970.

Conference Files, Lot 59 D 95

Collection of documentation on certain official visits of heads of government and foreign ministers to the United States and on major international conferences attended by the Secretary of State for the years 1949–1955, as maintained by the Executive Secretariat of the Department of State.

Conference Files, Lot 60 D 627

Collection of documentation on certain official visits of heads of government and foreign ministers to the United States and on major international conferences attended by the Secretary of State for the years 1953–1958, as maintained by the Executive Secretariat of the Department of State. This file is a continuation of Lot 59 D 95.

GTI Files, Lot 57 D 155

Files on Iran dealing chiefly with petroleum matters and U.S. oil negotiations with Iran for the years 1946–1954, as maintained by the Office of Greek, Turkish, and Iranian Affairs of the Bureau of Near Eastern, South Asian, and African Affairs, Department of State.

GTI Files, Lot 57 D 529

Files on Iran covering principally political and military matters and U.S. economic and military assistance to Iran for the years 1946–1954, as maintained by the Office of Greek, Turkish, and Iranian Affairs of the Bureau of Near Eastern, South Asian, and African Affairs, Department of State.

INR-NIE Files

Files retained by the Bureau of Intelligence and Research, Department of State.

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Classified central files of the Embassy in the United Kingdom for the years 1950–1952.

NAC Files, Lot 60 D 137

Master file of documents of the National Advisory Council on International Monetary and Financial Problems for the years 1945–1958, as maintained by the Bureau of Economic Affairs of the Department of State and which are now part of Washington National Records Center Accession No. 71 A 6682.

PPS Files, Lot 63 D 563

Master file of documents, drafts, records of meetings, memoranda, and related correspondence for the years 1947–1953 of the Policy Planning Staff, Department of State.

S/P–NSC Files, Lot 61 D 167

Serial file of memoranda relating to National Security Council questions for the years 1950–1961, as maintained by the Policy Planning Staff, Department of State.

S/P–NSC Files, Lot 62 D 1

Serial and subject master file of National Security Council documents and correspondence for the years 1948–1961, as maintained by the Policy Planning Staff, Department of State.

S/S–NSC Files, Lot 63 D 351

Serial master file of National Security Council documents and correspondence and related Department of State memoranda for the years 1947–1961, as maintained by the Executive Secretariat of the Department of State.

S/S–NSC (Miscellaneous) Files, Lot 66 D 95

Administrative and miscellaneous National Security Council documentation, including NSC Records of Action, as maintained by the Executive Secretariat of the Department of State for the years 1947–1963.

Secretary's Memoranda, Lot 53 D 444

Comprehensive chronological collections of the Secretary of State's memoranda, memoranda of conversation, and memoranda of conversation with the President for the years 1947–1953, as maintained by the Executive Secretariat of the Department of State.

Eisenhower Library, Abilene, Kansas

Dwight D. Eisenhower Papers

Papers of Dwight D. Eisenhower as President of the United States for the years 1953–1961. This collection, which was maintained by Ann Whitman and has subsequently been called the Whitman File, has several major parts, including the National Security Council file, the International Meetings file, and the International file.

John Foster Dulles Papers

Papers of John Foster Dulles as Secretary of State for the years 1953–1959. Also included are materials for the years 1951–1952 when he acted as a consultant to Secretary of State Acheson. This material is divided into folders covering various topics on international affairs.

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THE QUESTION OF ECONOMIC ASSISTANCE TO IRAN; UNITED STATES INTEREST IN THE SETTLEMENT OF THE ANGLO-IRANIAN OIL DISPUTE, JANUARY-DECEMBER 1951[1]

A. Events Leading to the Assassination of Prime Minister Razmara

No. 1

888.10/1-2251: Telegram

The Secretary of State to the Embassy in Iran[2]

TOP SECRET WASHINGTON, January 22, 1951—8 p. m.

1231. Eyes only Grady from McGhee. Whole question US aid to Iran under urgent review in light deteriorating US position and difficulties with Govt and Majlis, which subj ur recent tels.[3] Fol summaries present sit:

(1) Immed fol tel set forth Eximbank suggestion possible solution ratification problem, made by Bank in earnest endeavor help meet present difficulty.[4] Believe suggestion establishes excellent basis for ur personal discussion with Razmara and, if you deem appropriate, with Shah, to work out means effectively implementing US aid with minimum problem re Majlis. Believe Eximbank will be receptive any specific suggestions you might make upon their proposal which wld improve plan from polit point of view. If this particular proposal not workable, possible that alternatives can be worked

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[1] For previous documentation on Iran, see *Foreign Relations*, 1950, vol. v, pp. 445 ff.

[2] Drafted by Rountree and cleared by Matthews, the Investment and Economic Development Staff (ED), and the International Bank for Reconstruction and Development (IBRD).

[3] In telegrams 1559 and 1577 from Tehran, Jan. 13 and 16, Ambassador Grady reported that the $25 million Export-Import Bank loan would be rejected if submitted to the Iranian Majlis and asked that the Bank increase its credit line to $100 million and that the Department of State announce an increase in grant aid to Iran. (888.10/1-1351 and 1-1651)

[4] Telegram 1232, Jan. 22. The suggestion reads:

"Eximbank prepared consid estab $25 million credit in favor Bank Melli provided (a) Eximbank satisfied Bank Melli has legal author to borrow 25 million US dollars from Eximbank in line with terms provided orig draft agree with Govt; (b) governing authorities of Bank Melli take approp action incur indebtedness; and (c) IranGov in consideration of Eximbank extending credit to Bank Melli agree with Eximbank by letter agree that it will put into operation and administer proj procedures contained in memos of understanding forwarded to you with draft of original loan agree." (888.10/1-2551) out. Eximbank loan only immediate method making aid available, therefore important reach settlement pending est other forms of aid discussed below.

(2) Internatl Bank has restudied its position in light current situation and anxious assist to fullest practicable extent. Pres Black has outlined to Dept current view that Bank shld proceed with economically justifiable projects. While Khorramshahr project only one which Bank will accept without further study,[5] it indicated willingness send Iliff or equivalent officer to Iran immed with staff, including engineer, required to make prompt decisions on the spot re any projects put forth. While Bank reluctant indicate total loans which it will consider, view earnings Iran for exchange sufficient, assuming completion AIOC agreement within year,[6] reasonably to justify earmarking $10 million annually for debt servicing. Bank prepared proceed on assumption AIOC agreement will be concluded. Estimating $5.5 million for surplus property credit and Eximbank loan, $4.5 million annually wld remain for further debt servicing. The loan amount which this sum cld service is therefore theoretical limit present thinking, and this dependent upon no further Eximbank loans which wld absorb any portion of $4.5 million. Bank urges USGov coop in (a) lending good offices to influence IranGov improve budgetary practices and introduce finan and administrative reforms, (b) discouraging IranGov from contracting from sources other than Internatl Bank for further external loans, and (c) exchanging views with Bank on specific projects for $25 million Eximbank use so as to assure coordination projects financed by both institutions.

Understand Bank officials plan discuss appropriate phases foregoing (excluding, of course, understanding with USGov noted above) with Moqbel in near future. Bank has asked that we not indicate to Irans approximation of total loans which it might be prepared to make.

(3) Dept urgently considering recommending increase from $10 to $25 million amount grant aid to be included in forthcoming legislation. Since Budget, Defense and other agencies involved in decision Dept's approval of increase would not be final. In light normal legislative uncertainties and possible Congressional reaction, Dept cannot authorize any announcement of proposed grant aid at this time.

Realization of the above programs shld in Dept's view contribute very substantially to econ progress in Iran and to improvement of Amer prestige in Govt, Majlis and public. Recognized, of course, that in all probability only portion total funds can be absorbed within year. For this reason, as well as facts that (a) increase of

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[5] A proposed $3 million project for the development of the port of Khorramshahr.

[6] The Anglo-Iranian Oil Company (AIOC) supplemental agreement with Iran was signed on July 27, 1949, and submitted to the Majlis which referred it to a special oil commission. On Dec. 12, 1950, the commission unanimously recommended that the supplemental agreement be rejected by the Majlis. For further documentation relating to the supplemental agreement, see *Foreign Relations*, 1950, vol. v, pp. 445 ff.

Eximbank commitment to one hundred million dollars wld probably be interpreted widely as capitulation to Iran pressure and wld lead to even greater demands by Irans, (b) there is no assurance that even higher Eximbank loan figures wld be accepted by the Majlis, since it wld contain same "onerous" terms, and (c) extension of Eximbank loans in this magnitude wld certainly preclude any participation by Internatl Bank on basis that Iran servicing capacity wld be exceeded, Dept unable at this time to recommend such course, and believes in light new aid picture you will agree it undesirable. Furthermore, if US promises one hundred million and only small portion is used, Irans wld probably accuse us of failing to fulfill commitments with polit consequences even more serious than at present.

Dept recognizes that even this liberal approach cannot assure removal govt, Majlis and public criticism, but feels that degree to which it can be made successful is dependent in large measure upon extent of coop that you can obtain from Razmara and Shah. Therefore attaches utmost importance to ur discussions from this point, and I assure you I am gratified that you are in Iran to carry out this important task.

There is growing impression among agencies here IranGov, on assumption it can play one power off against the other as it has so often in the past, has deliberately during past three months obstructed US attempts aid Iran and provoked anti-US feeling in effort to force greater concessions. Unless this impression corrected chances of US rendering really effective assistance to Iran will progressively diminish and I am sure you will agree we must urge Irans it is in their own best interest to do so.

Ur urgent telegraphic comments on the foregoing will be appreciated.[7]

ACHESON

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[7] In telegram 1664 from Tehran, Jan. 26, Grady again strongly argued for the $100 million Eximbank credit. (881.10/1-2651)

No. 2

788.00/1-2351: Telegram

The Ambassador in Iran (Grady) to the Department of State

SECRET PRIORITY TEHRAN, January 23, 1951—3 p. m.

1631. Deptel 1209 January 19.[1] Political situation at moment characterized by:

(a) Weakness of Razmara Government vis-à-vis Majlis and entrenched interests, also general lack of popular faith in government,
(b) Critical financial situation Razmara Government,
(c) Confusion and frustration resulting from unsettled oil question,
(d) Gradual but steady swing of Iran toward neutral position which trend in part reflects course of events in Asia.

A good portion of blame for present situation can be placed upon Shah. It seems apparent Shah, undoubtedly recalling manner of establishment of dynasty, will never support strong Prime Minister. Razmara showed considerable promise six months ago and so Shah began undercutting him. Recently Shah's attitude has changed somewhat and he is now apparently making effort support Razmara or at least assure more stability in government. In this connection, Razmara informed local AP Correspondent Friday he is now enjoying Shah's support because he (Prime Minister) is now weak.

Prime Minister's position with Majlis is one of open conflict and situation was brought to head by abrupt withdrawal oil bill. According to one Majlis Deputy, this act inspired Majlis to "recover its rights" which in turn led to (1) its hasty rescission press laws and (2) action restoring oil question to Majlis Oil Commission thus taking determination oil policy out of Prime Minister's hands. Shah's efforts to bring about harmony and stability in Majlis may be successful to degree but more than this now needed restore prestige Razmara Government.

On aid question, Razmara believed honest when he says real difficulty must be expected if Export-Import loan agreement comes before Majlis. On other hand, according one source, he has informed Soviets he is blocking US aid to avoid increased US prestige. Regardless of Razmara's attitude re loan, it seems clear debates in Majlis will be critical and prolonged unless large loan on simplified terms offered and unless Shah and Razmara show positive leadership in attempt obtain Majlis approval.

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[1] Telegram 1209 reads as follows:

"In discussions here re impasse over US aid policies in Iran, it wld be helpful have tel analysis polit situation as it exists at moment. Dept unclear position of Shah in Razmara's difficulties with Majlis and why consideration has not been given by Shah and Razmara to dissolution Majlis if it continues balk every attempt by Govt introduce legis of any sort." (788.00/1-1951)

Undoubtedly both Shah and Razmara have given serious consideration dissolution of Majlis. Dissolution might seem to offer attractive prospect of government by decree. On other hand, dissolution might very easily lead to civil disturbances and thus play directly into hands of Soviets. National Front leaders and Tudeh would undoubtedly encourage unrest. Further, dissolution of Majlis would require new elections which could probably not be completed in less than five months, certainly in not less than three months. Meanwhile, all legislation would be blocked and interim government decrees would be subject to eventual Majlis approval. This would include action on any loan or oil agreement. Furthermore, it seems doubtful whether new Majlis would prove more effective in constructive legislation than present Majlis. Although government can and does rig elections in provinces, it cannot do so in Tehran. Number of National Front and opposition members would probably be increased rather than decreased by new elections. Although National Front is in general an unstable and unconstructive coalition, it enjoys considerable popularity among the masses.

We believe that present political situation will be resolved in one of two ways: (1) Out of frustration, Razmara may make bid for dictatorial powers or (2) Razmara government will continue for several months and then collapse to be succeeded by familiar old-line government.

In view of Razmara's lowered prestige, with doubtful support and possible open opposition from Shah, and with his control over the army very doubtful at best, it now seems most unlikely that Razmara would be so rash as to bid for dictatorial powers.

We conclude, therefore, that slow but steady disintegration of Razmara Government may be expected to continue and that within the next few months Razmara will go the way of his predecessors only to be succeeded by another politician, probably with an old-guard line-up in the cabinet.

I realize that the foregoing is not a cheerful or encouraging picture. Nevertheless we are determined to continue to exert dynamic efforts to build up this country both politically and economically thereby to strengthen it as a barrier against the flood of Russian aggression. In this, we must have full and effective support from both Washington and London. To accomplish our purpose the following is necessary:

1. Come to an agreement with the British without delay on the highest level as to parallel policies in Iran,
2. Continue our efforts here through close personal relations with the Shah and the Prime Minister and in collaboration with the British (if they can be persuaded to really cooperate with us) to bolster their morale and guide their footsteps along the road of progressive development of the country,
3. Encourage the earliest possible solution to the oil question,
4. Extend immediate economic and military aid to Iran on simple terms and in amounts justified by the vital strategic location of this country.

The alternative to the foregoing is through default to allow Iran to fall into the Soviet orbit.

GRADY

No. 3

888.10/2-1651: Telegram

The Secretary of State to the Consulate General at Istanbul[1]

TOP SECRET **PRIORITY** WASHINGTON, February 16, 1951—11 a. m.

397. From Secretary, action Grady, info McGhee.[2] I have discussed ur recent tels with Pres who has given full consideration to ur recommendation of increasing Eximbank loan to $100 million. In full awareness critical nature of Iran situation, Pres does not concur in ur recommendation and suggests going ahead with $25 million Eximbank loan.[3]

In Dept's view, present and projected measures US aid to Iran constitute realistic program designed achieve US objectives. We are convinced that econ advantage to Iran and polit benefit to US wld be inconsequential if loan is consummated without clear indication Iran-Gov willing accept (a) clear-cut and direct obligation contract loan and (b) adequate US technical supervision over expenditure loan funds.

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[1] Drafted by Dorsz, cleared by Thorp, and signed by Secretary Acheson. Repeated to Tehran.

[2] Ambassador Grady and Assistant Secretary McGhee were in Istanbul for a meeting of the chiefs of U.S. diplomatic missions in the Middle East, Feb. 14-21; for documentation on this meeting, see *Foreign Relations*, 1951, vol. v, pp. 49 ff.

[3] On Jan. 30, McGhee sent a memorandum to Secretary Acheson and Deputy Under Secretary Matthews reviewing the Iranian situation and stating his belief that a $100 million loan to Iran would not be justified. (888.10/1-3051) On Feb. 8 McGhee transmitted another memorandum to Secretary Acheson reviewing U.S. efforts to help Iran. (888.10/2-851) On Feb. 9 Secretary Acheson told Lucius D. Battle that "he had discussed at the Cabinet that day the proposed loan to Iran. He said that the feeling of the Cabinet seems to be clearly in favor of the recommendations of the [two McGhee] papers." (Memorandum by Battle, Feb. 12; 888.10/2-1251) The two memoranda by McGhee were also transmitted to President Truman, who on Feb. 15 told Secretary Acheson that "at the Cabinet meeting he had clearly indicated his view, which was that of the rest of the Cabinet also," that the United States should proceed in accordance with the first McGhee memorandum. (Memorandum of conversation with the President, Feb. 15; 888.10/2-1551)

We believe record is clear. Eximbank has cooperated fully and has shown sympathetic understanding peculiarities Iran situation. Further, Bank reiterates willingness consummate transaction with greatest simplicity and clarity consistent with foregoing conditions. On other hand, Irans have procrastinated and blocked our attempts to help them through Eximbank loan. Their recent tactics seem to justify opinion they are attempting use failure of Eximbank loan to materialize as lever to obtain wider concessions from US.

On ur return to Iran I suggest you point out to Razmara and possibly Shah that USGov cannot grant loan without minimum conditions outlined above. Breakdown in negotiations wld have serious repercussions here. If Iran rejects loan Amer public will demand explanation and we wld have to explain rejection due to Iran action including refusal of PriMin seek authority of Majlis to contract loan. Razmara and Shah surely will understand that such action will prejudice any possibility of other forms of assistance which Iran may seek from US.

I appreciate fully difficulties of presenting the above position at current stage of negots. However, I am satisfied that main hope in present circumstances for progress with Iran depends on convincing Shah, Razmara and Majlis that US aid to Iran is an integral and important part of well-thought-out program for strengthening free world. Wld you therefore pls exert every effort to make Razmara and Shah realize that our ability to assist Iran depends in great degree upon mutual coop. We hope therefore that they will take such action as may be necessary proceed with Eximbank negots.

ACHESON

No. 4

788.00/3-751: Telegram

The Acting Secretary of State to the Embassy in Iran[1]

TOP SECRET PRIORITY WASHINGTON, March 7, 1951—5 p. m.

1531. Pres and Acting Secy sending appropriate messages condolence Shah and FonMin.[2]

While Dept realizes development will require rapid decisions and action in Iran and that you will continue exert ur influence as you deem appropriate, its prelim views might be useful at this juncture.

Removal Razmara from picture creates grave crisis which requires firm hand and forceful direction if situation Iran is not to become so unsettled that Communists can take over with relatively little difficulty. Only person in Dept's opinion who cld provide this direction under present circumstances is Shah and we believe US and Brit shld support him in every feasible way and encourage him to act with force and vigor in crisis.

Shah shld take every possible precaution to protect himself and Dept wld appreciate ur urging on him necessity of adequate personal security, pointing out possible calamitous results for Iran if anything shld happen to him.

While we wld not wish to give Shah impression US is trying to suggest Premier, Dept believes it might be well to convey to him view whoever he selects shld be man he personally trusts and who he knows is loyal to him. Other qualifications appear secondary at this juncture.

WEBB

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[1] Drafted by Ferguson and Rountree. Repeated to London.

[2] In telegram 1994 from Tehran, Mar. 7, Ambassador Grady reported that Prime Minister Razmara was assassinated at 10 a.m. that day by a member of the religious group, "Fedayan Islam". (788.13/3-751) In a subsequent telegram Grady reported that the situation was still confused, but Razmara's death seemed to have arisen because the "Fedayan Islam" concluded that he favored Communist activities and was acting on behalf of foreign interests in connection with the oil question. (Telegram 2001 from Tehran, Mar. 7; 788.00/3-751) Finally on Mar. 9 Grady reported that it was becoming clear that the motivation for the assassination was Razmara's speech to the Majlis on Mar. 3 in which the Prime Minister had supported the AIOC supplemental agreement. (Telegram 2013 from Tehran; 888.00/3-951)

No. 5

788.00/3-1451

Memorandum by the Deputy Assistant Secretary of State for Near Eastern, South Asian, and African Affairs (Berry) to the Secretary of State[1]

SECRET [WASHINGTON,] March 14, 1951.

Subject: The Iranian Situation.

The following summarizes the current Iranian situation for your information:

The assassination of Prime Minister Razmara by a religious fanatic on March 7 has resulted in an extremely confused situation in Iran, some disorders, and an impasse over the Anglo-Iranian Oil Company dispute. Matters such as the Export-Import Bank and IBRD loans are in abeyance until the situation becomes more stable.

Razmara's assassination arose out of the highly emotional atmosphere surrounding the Anglo-Iranian Oil Company dispute, which fanatical nationalist elements in Iran have used to stir up popular feeling. The Prime Minister was killed two days after he made a long speech in the Parliament in which he pointed out the difficulties inherent in nationalization and clearly placed himself in opposition to it. Communist elements in Iran were quick to seize upon the opportunity of spreading discontent, and on the day following the assassination held a large public demonstration during which strong anti-American and anti-Western slogans were shouted in the vicinity of the American Embassy. The immediate security situation has, however, remained fairly quiet throughout the country.

Upon learning of the assassination, the Department telegraphed Ambassador Grady its belief that the Shah alone could be counted upon to provide the firm leadership needed in the crisis, and that we should give him our full support. We expressed the view that the principal quality of the person to be selected as Prime Minister to replace Razmara should be his loyalty to the Shah. Both Ambassador Grady and the British Foreign Office agreed with this, and the Ambassador has informed the Department that joint United States-British advice along these lines has been conveyed discreetly to the Shah.

On March 11, Hossein Ala, the former Iranian Ambassador to the United States, was named Prime Minister, and although his cabinet has not yet been presented to the Majlis, Ala received a preliminary vote of confidence. Ala is known to have unquestioned loyalty to the Shah and is generally acceptable to most factions in the Parliament, although he is opposed by the National Front. His frail health renders it unlikely that he will continue in office for a long period, or that he will endeavor to replace Razmara as a "strong" Prime Minister. Ala himself has indicated that he intends staying in office only until the situation becomes more stable, after which he will give way to stronger leadership.

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[1] Drafted by Rountree; copies also sent to Matthews and Perkins.

While we do not know the current British view in this regard, they indicated earlier the belief that the Shah should proclaim martial law and dissolve Parliament. The Department, recognizing that this might be necessary under the circumstances, authorized Ambassador Grady, if he concurred, to tell the Shah that the United States would understand and sympathize with his motives if he should decide to take action along these lines. The Shah thus far has considered it unnecessary to resort to this course, and Prime Minister Ala recently told Ambassador Grady that he believes such drastic measures should be avoided but that he will invoke martial law if there are any further disturbances.

The British are naturally extremely concerned over the oil question. Press reports indicate that the British Government has sent a note to Iran protesting the Iranian Parliament's decision to consider nationalization of the oil industry, pointing out that the contract cannot be terminated legally until 1993.[2] There is a danger that this course will have serious effects in Iran and might make the situation even worse than it is. We were hopeful that at this juncture the British would see fit to offer to the Iranians, possibly in a dramatic manner, a new, realistic and generous arrangement which we could, under certain circumstances, support.

Although it is far from clear what the Iranians have in mind when they speak of "nationalization", it seems clear that a major change in the status of AIOC is inevitable, and that any attempts by the United States at this time to block the Iranians by strong diplomatic action would only make matters worse. We believe that we should be prepared, if necessary, to help both the Iranians and British work out a new arrangement which would satisfy Iranian political requirements and at the same time assure the flow of petroleum to Great Britain and Western Europe.

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[2] For text of this letter, dated Mar. 14, see British Cmd. 8425, Persia No. 1 (1951): *Correspondence between His Majesty's Government in the United Kingdom and the Persian Government, and Related Documents concerning the Oil Industry in Persia, February 1951 to September 1951*, pp. 25-27, or *Documents* (R.I.I.A.) for 1951, pp. 475-477.

The British Government is planning to send Mr. Geoffrey Furlonge, head of the Eastern Department of the Foreign Office, to Washington in the near future to discuss the situation.

No. 6

S/P-NSC files, lot 62 D 1, NSC 107 Series

Study Prepared by the Staff of the National Security Council[1]

TOP SECRET [WASHINGTON, undated.]

The Position of the United States With Respect to Iran

THE PROBLEM

1. To assess the position of the United States with respect to Iran, with particular reference to possible future developments in Iran affecting United States security interests.

ANALYSIS

Basic United States Position

2. Because of its resources, strategic location, vulnerability to armed attack and exposure to political subversion, Iran must be regarded as a continuing objective in the Soviet program of expansion. If Iran should come under Soviet domination, the independence of all other countries of the Middle East would be threatened. Specifically the USSR could (1) control or limit the availability of a Middle Eastern oil reservoir upon which the economy of Western Europe depends; (2) acquire advance bases for subversive activities or actual attack against a vast contiguous area including Turkey, Iraq, the Arabian Peninsula (hence the Suez Canal), Afghanistan, and Pakistan; (3) obtain a base hundreds of miles nearer to potential US-UK lines of defense in the Middle East than any held at present; (4) control continental air routes crossing Iran, threaten those traversing adjacent areas, and menace shipping in the Persian Gulf; and (5) undermine the will of most Middle Eastern countries to resist Soviet aggression. In addition to these developments affecting the Middle East, the loss of another free country to communist domination at this time would damage the global position of the United States and other members of the Western community by weakening the determination of threatened nations everywhere to resist communism.

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[1] Regarding the circulation and approval of this study, see footnote 1, *infra*.

3. Loss of Iranian oil production and of the refinery at Abadan would seriously affect Western economic and military interests, particularly as regards the level of industrial activity in Western Europe. The effect of this loss on the volume of petroleum products available for Western Europe could be overcome in a reasonable length of time by developing reserves and building refineries elsewhere, but the financial effects, in the loss of the British investment and in the increased dollar requirements of Western Europe, could be overcome only slowly, if at all. The loss of Abadan would also deprive the West of the principal source of aviation gasoline and fuel oil in the Eastern Hemisphere, with consequent effect upon air and naval activity in the region.

4. The primary objective of our policy toward Iran is to prevent the domination of that country by the USSR and to strengthen Iran's association with the free world. Corollary aims are (1) to encourage relations between Iran and other countries calculated to elicit United Nations support for its continued independence; (2) to assist the Iranian Government in maintaining conditions of internal security, thereby increasing respect for Iranian sovereignty, strengthening the stability of the government, avoiding a pretext for overt Soviet intervention, and making indirect Soviet aggression through internal subversion more difficult; and (3) to foster social reform and an expanding economy with the purpose of alleviating discontent and strengthening allegiance to the central government.

Evaluation of Current Policy

5. Our objective of preventing domination of Iran by the USSR has so far been achieved by means of political action. Iran, after first following a policy of procrastination, evasion and compromise when confronted by an aggressive Soviet attitude, has for the past three years, with strong United States and United Kingdom encouragement and support, been able to maintain its independence in the face of persistent Soviet pressure. The United States has informed Iranian authorities that it is prepared, so long as the Iranian Government demonstrates a willingness to stand up for its independence against external pressure, to support Iran not only by words but also by appropriate acts. We have told the Iranians that we are not in a position to make any commitment as to our action if the Soviet Union should take aggressive measures against Iran, but have pointed out our obligations under the United Nations Charter. In response to Iranian inquiries, we have authorized the Embassy in Tehran to say that in the event of war with the Soviet Union involving both Iran and the United States, Iran may count on all assistance compatible with United States resources and com-

mitments in a global conflict. The Secretary of State informed the Shah on November 18, 1949 that our interest was not limited to the area of our formal treaty obligations. The Shah was assured that our interest in Iran would be great indeed if trouble should come.[2]

6. Past United States efforts to assist Iran internally have included two military missions now advising the Iranian Army and the *Gendarmérie,* support of Iran's efforts to secure financial aid through appropriate agencies (such as the World Bank) for well-justified economic development projects, encouragement and advice in connection with the Iranian Government's consideration of political and economic reforms designed to strengthen popular loyalty to the central government, and the provision of surplus light military equipment on credit for internal security and legitimate defense purposes. Iran has also been included in the Mutual Defense Assistance Program and is now receiving military aid on a grant basis. The purpose of this aid is to assist in the maintenance of internal security, to increase the confidence of the Iranian Government and people in their ability to defend themselves, to give concrete evidence of American interest in the security of Iran, and to enable the Iranian forces, in the event of war, to carry out certain limited defensive operations in furtherance of over-all strategic plans of the free world.

7. With the approval of the President and in conjunction with the Export-Import Bank, the Department of State is initiating a new program designed to overcome some of the existing weaknesses of the Iranian Governmental and economic structure and provide impetus for the economic and social development of the country. This program includes the following elements:

a. An Export-Import Bank loan of $25,000,000 for road building and agricultural improvement. Failure of Iran to accept this credit would increase our reliance on IBRD credits and United States Government grants as levers to induce the Iranian Government to put its economic house in order.

b. The strengthening of the staffs of the existing American diplomatic and consular posts in Iran and the opening of a new consulate at Isfahan.

c. A substantially enlarged program of information and cultural relations in Iran.

d. A military aid program within the capabilities of the Iranian armed forces to absorb.

e. A technical assistance program using Point Four funds concentrating on public health, rural extension, education, etc., at the village level.

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[2] For documentation on the Shah's visit to the United States, Nov. 16-Dec. 30, 1949, see *Foreign Relations,* 1949, vol. VI, pp. 471 ff.

f. Seeking the cooperation of the United Kingdom to enable Iran to utilize its sterling receipts from petroleum for essential development of the country, including conversion of such sterling into dollars, as may be required, for essential imports and serving of dollar obligations for development purposes.

8. A major source of economic stagnation and political discontent in Iran has been the failure of the Iranian Government and the Anglo-Iranian Oil Company to reach an agreement on a supplementary concession agreement. The belief is widespread in Iran that the company is unfairly exploiting the country by refusing to offer reasonable and equitable royalties and its entire operation is resented as a closed corporation exploiting Iranian wealth but beyond the reach of Iranian custom or law.

9. This has resulted in strong antagonism against the British, and, among the less educated, against all foreigners, and has led many Iranians to believe that the Western powers are not seriously interested in the welfare and independence of the country but are concerned only with exploiting its primary resources for their own purposes. The present Iranian leaders do not associate the United States with the policies of the Anglo-Iranian Oil Company. They, however, want the United States to side with them in the dispute and force the Company to meet their terms. Nationalization, which is currently under discussion in the Iranian Parliament, is not impossible and if it did occur would subsequently make it easier for the USSR to influence the distribution of the oil. The United States should use its utmost influence to persuade the British to offer, and the Iranian government to accept, an equitable concession agreement. Failure to reach such agreement carries with it such undesirable consequences that no opportunity should be lost to impart to both governments our sense of urgency in this matter.

10. Iran has expressed serious dissatisfaction with the limited nature of the military assistance we are prepared to furnish and even greater dissatisfaction at our past failure to provide substantial direct economic assistance. The Iranian Government has repeatedly stressed the desirability of a closer defense relationship with the United States, preferably through the mechanism of a regional defense arrangement for the Near East similar to the North Atlantic Treaty. Our refusal to commit ourselves in this respect has been a further source of Iranian uneasiness and discontent. These factors have occasionally in the past given rise to a belief in Iran that the United States is not seriously interested in the welfare and independence of the country and would abandon it to Russian aggression if matters came to a showdown. There is a danger that such an attitude will recur unless the United States continues to take a course designed to convince the Iranians of its genuine

interest in Iranian independence. There is a belief in influential Iranian quarters that the Iranian Government in its westward orientation policy has gone too far and has placed Iran in an extremely vulnerable position vis-à-vis the Soviet Union without obtaining anything in return to help Iran protect itself. This attitude combined with recent ostensibly friendly gestures by the USSR[3] have started a trend towards Iran's reversion to its historical policy of playing one power off against the other and maintaining a precarious neutrality. The new program of American assistance and guidance outlined above is designed to counteract this trend in Iranian thinking. Likewise, the firm policy adopted by the United States in Korea has helped to convince the Iranians of United States determination to oppose aggression even though the United States has no formal security arrangements with the country attacked. Reverses in Korea, on the other hand, tend to make many Iranians doubtful of United States ability to render effective assistance, a feeling not lessened by Iran's proximity to the Soviet Union.

Possible Future Developments

11. Although the USSR will continue to apply strong political and psychological pressures against Iran in an effort to force the government of that country into submission, it is considered unlikely that the Soviet Union would be willing to resort to direct armed intervention by organized USSR military forces at this time. Nevertheless the possibility of such armed intervention cannot be entirely ruled out. In the absence of such armed intervention Iran is probably capable of maintaining successful resistance to Soviet pressure and could be expected to maintain its alignment with the free world provided it has confidence in United States and United Kingdom support and can produce competent political leadership able to overcome the existing feeling of frustration and hopelessness among the mass of the people and to implement the planned economic and social reforms, delay in the execution of which is now seriously threatening the internal stability of the country. Since these conditions necessary for the maintenance of Iran's westward orientation and resistance to Soviet pressure may not continue to exist, it is possible that the United States may be faced in the future with one or more of the following contingencies:

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[3] At the end of 1950 the Soviet Union negotiated a barter agreement with Iran, agreed to the release of several Iranian border guards held in the Soviet Union, and expressed an interest in opening discussions on stocks of Iranian gold taken from Iran in 1946. For documentation on the barter agreement, see *Foreign Relations*, 1950, vol. v, pp. 615 ff.

First Contingency: The Iranian Government adopts a policy of "neutrality" in the "cold war" and seeks a modus vivendi with the Soviet Union.

12. Continuing deterioration of the situation in Iran has created a feeling of hopelessness and a public psychology inherently dangerous from the point of view of Iran's determination to resist Soviet pressures. Present Soviet tactics in Iran are designed to convince the Iranians that they have nothing to fear from the USSR and it seems certain that in their search for security many Iranians are impressed by the present "friendly" policy of the Soviets. Unless the United States can convince them of the real issue at stake, they will insist on a government in power not unsympathetic to Soviet approaches. Such a government, fearing overt Soviet action and feeling that it has been left alone to its fate, might seek some sort of understanding with the Soviet Union, possibly along the lines of the agreement of 1946. Such an understanding would permit Soviet economic exploitation, amnesty to political prisoners, legalization of the Tudeh Party and its eventual participation in the government, and would open the door to a gradual taking over of the country by local communist and Soviet agents.

13. Current United States measures in Iran are designed to prevent this first contingency. If nevertheless the contingency did occur, the United States could, in conjunction with the United Kingdom and with little risk in proportion to the possible gain, take positive steps, . . . to support pro-Western elements and affect Iran's alignment with the free world. The alternative course of action, that of accepting without counter-action Iran's reversion to an attitude of neutrality, would probably result in eventual loss of Iran with the consequences noted in paragraph 2 above.

Second Contingency: The overthrow of the present Iranian Government and the establishment of a pro-Soviet puppet government by subversive or other means not involving the use of Soviet military force.

14. The weakness of the Iranian Government and the growing activity of dissident elements, including the Tudeh Party (despite the fact that this party is outlawed and has to function underground) make this event a possibility. Several leading Iranians have expressed the view that communist overthrow of the government is not only possible but even probable unless steps are taken to improve the economic and social condition of the people and increase the efficiency of the government. The appointment of General Razmara, formerly Chief of Staff of the Iranian Army, as Prime Minister gave promise of improved leadership and direction; but up to

the time of his assassination on March 7, 1951, his accomplishments had been singularly few.

15. The assassination of Prime Minister Razmara underlines the basic political instability of Iran and emphasizes once again the need for strong and vigorous leadership. It had been hoped at the time of his appointment in June 1950 that Razmara possessed the qualities and influence needed to give Iran forceful government. However, he proved unable to make headway against the selfish interests of the politicians who control the Iranian Parliament and at the time of his death, he had been obliged to resort to one compromise after another in order to stay in power.

16. His murder will greatly increase the existing political instability in Iran at least for a temporary period. The opportunities available to the communists will thus be enhanced and it therefore becomes more than ever necessary that there be firm direction of the government at almost any cost. The only source of the required type of leadership at the moment appears to be the Shah. He can only succeed with strong support from the United States and the United Kingdom. During the next few months the political situation will be extremely fluid and give rise to many difficulties.

17. If the second contingency occurred the United States would have three alternative courses of action:

a. *To accept the loss of Iran to the Soviet orbit.* This would require a reversal of basic United States policy regarding the Mediterranean and Middle East and would mean acceptance of the consequences summarized in paragraph 2 above.

b. *To support, in conjunction with the United Kingdom, the legitimate government by all means short of commitment of United States military forces.* This course of action would involve little risk and if successful would produce considerable gain at little cost. It would leave United States forces uncommitted in Iran and hence available for other and possibly more urgent missions. . . . On the other hand, should this course prove ineffective in restoring the legitimate government, the United States would have to accept loss of all or part of Iran or pass to the course of action noted in the following sub-paragraph.

c. *To support the legitimate government of Iran by measures which include, inter alia, the deployment of United States armed forces (1) as a show of force or (2) in sufficient strength to restore the legitimate government.* A show of force could be limited to air and naval action, and might be successful in restoring the legitimate government and preserving Iran's alignment with the West. However, United States armed forces in sufficient strength to restore the legitimate government might lead to progressively heavier commitments that the United States could not afford. In any event, United States armed forces in strength to restore the government will not be available in the foreseeable future. Commitment of United States forces even in a show of force might provoke military action by the USSR which could well lead to hostilities between the United States and the USSR.

Third Contingency: The establishment of pro-Soviet provincial governments in Iran by subversive or other means not involving the use of Soviet military force.

18. The provincial administration of Iran is still subject to a high degree of centralized control from Tehran, and the local communist leadership in northern Iran was largely broken up when Soviet forces retired in 1946. Therefore, even though renewed communist activity has been reported in some parts of the area, it is doubtful that communist leadership could be re-installed in the provincial administrations, in the absence of renewed entry of Soviet forces, unless the central government virtually ceased to function or was overthrown and replaced by a pro-Soviet puppet regime. Nevertheless, establishment of pro-Soviet provincial governments is by no means impossible if confusion and maladministration in the Iranian Government continue for an indefinite period and if political leadership is not greatly improved.

19. If this contingency did occur we would be faced with intensified Soviet subversive activities in the remaining free areas of Iran and in Near Eastern areas contiguous thereto and with an increased tendency on the part of Near Eastern countries to seek strengthened security arrangements with the Western powers. Should security arrangements considered satisfactory by them not be forthcoming, the Near Eastern countries might in time seek a compromise with the USSR.

20. In this contingency the courses of action available to the United States are virtually the same as those discussed under the second contingency above, the principal difference being that support of the Iranian Government at its request would be for the purpose of enabling it to regain control of revolting provinces rather than of the central machinery of government. However, the risk of military involvement with the USSR would be increased for the United States if United States or United Kingdom forces, either as token forces or in strength, were deployed near the northern provinces, although it is entirely possible such deployment might serve as a deterrent.

Fourth Contingency: An overt invasion of Iran by the armed forces of the Soviet Union.

21. Information presently available does not indicate that overt Soviet attack with organized USSR military forces against Iran is probable at this time, especially since opportunities still remain for the USSR to gain its objectives in Iran short of overt attack. However, the possibility of such attack cannot be excluded, since the

USSR has the military capability of launching an attack without warning and quickly overrunning Iran. While such an attack would in fact give rise to the risk of global war, it is possible, even though not probable, that the USSR, miscalculating the degree of risk involved, would launch an attack against Iran designed to attain Soviet objectives in that area without bringing on global war. It is also possible, but improbable, that the USSR would deliberately assume a risk of global war by attacking Iran.

22. It seems likely, in view of the repeated references to the 1921 Irano-Soviet Treaty of Friendship in the Soviet Protests to Iran in 1948 and 1950 over the presence in Iran of American military missions and oil drillers, that the Soviets will, if they invade Iran, invoke Article 6 of this treaty as a justification for their action. According to the Legal Adviser of the Department of State, the following conditions must co-exist before the Soviet Union would be justified in sending troops into Iran:

> "a. If any third countries attempt by military interference to carry out a policy of usurpation in the territory of Persia or to make the territory of Persia a base for military operations against Russia.
>
> "b. If at the same time there is a threat of danger to the frontiers of the Russian Socialist Federative Soviet Republic or those of the Powers allied therewith
>
> "c. If the Persian Government, after being warned by the Russian Soviet Government, finds itself unable to avert such danger.
>
> "d. If preparations have been made for a considerable armed attack upon Russia or the Soviet Republics allied to her by the partisans of the regime which has been overthrown (the Czarist regime), or by its supporters among those foreign powers which are in a position to assist the enemies of the Workers and Peasants Republics, and at the same time to possess themselves by force or by underhand methods of part of the Persian territory thereby establishing a base of operations for any attacks—made either directly or through the counter-revolutionary forces—which they might contemplate against Russia or the Soviet Republics allied to her."

It is also the view of the Department's legal advisers that if the USSR made out a case for co-existence of the above four conditions, and at the same time the government of Iran denied their co-existence and/or resisted the introduction of Soviet troops into Iran, the USSR would not be entitled under the United Nations Charter to introduce armed forces unilaterally into Iran on the basis of the treaty. It would be a violation of Charter obligations for the Soviet Union to take such action against the will and over the resistance of the Government of Iran. In such circumstances, the Soviet Government would be bound by the Charter to seek a peaceful adjustment of differences arising out of the 1921 treaty and, if necessary, to refer the matter to the United Nations for consideration.

23. In view of the above, the invocation of the treaty need leave no doubts in the free world as to the rights and wrongs of the matter and the misuse of its provisions by the Soviets to justify aggression could be made clear to world opinion. The Soviets can use the treaty as a pretext to becloud the issue and the United States should accordingly be on the alert to counter such moves.

24. In the event of overt Soviet attack on Iran, available United States courses of action would include:

a. *Opposing the aggression by political means short of the commitment of United States armed forces in Iran.* This course would be less costly and would leave our forces available for other urgent tasks, including the contingency of global war. This course, however, would be unlikely to succeed.

b. *Opposing the aggression by all means short of global war, including deployment of United States and United Kingdom forces for localized opposition to the Soviet attack.* This course would lead to hostilities between United States and USSR forces involving the risk of global war, while the commitment of United States forces in Iran would reduce United States capabilities for global war if it developed. However, this course, in so far as it prevented complete Soviet occupation of Iran, would provide an opportunity for the operation of political measures designed to stop the aggression short of global war.

c. *Taking action on the assumption that global war had automatically begun.* However, it would be contrary to United States interests and traditions to regard a localized attack as the automatic "push-button" initiation of global war.

CONCLUSIONS

25. The present situation in Iran requires the continuation of basic United States policy with respect to the Mediterranean and the Middle East, including Iran, and the strengthening of measures in support of that policy, particularly measures designed to prevent Iran from assuming an attitude of neutrality in the "cold war".

26. In the event Iran assumes an attitude of neutrality in the "cold war", political steps by the United States and United Kingdom to restore Iranian alignment with the free world would be required.

27. In the event the present Iranian Government is replaced by a pro-Soviet puppet government through subversive measures not involving the use of the Soviet military forces, United States and United Kingdom support of the legitimate government would be required.

28. In the event pro-Soviet provincial governments are established in certain areas of Iran by subversive means not involving the use of Soviet military force, United States and United Kingdom support of the legitimate government, short of deployment of United States forces, is required.

29. Direct Soviet attack on Iran would not automatically initiate global war, but would in fact so greatly increase the risk of global war that the United States while taking measures to stop and localize the aggression would also have to proceed on the assumption that global war was probably imminent.

No. 7

S/P-NSC files, lot 62 D 1, NSC 107 Series

Draft Statement of Policy, Proposed by the National Security Council[1]

TOP SECRET [WASHINGTON, March 14, 1951.]
[NSC 107]

IRAN

1. It continues to be in the security interest of the United States that Iran not fall under communist domination, either as a result of invasion or internal subversion.

a. Iran is located in a key strategic position, the occupation of which would enable an enemy to threaten the nearby oil producing areas, Turkey, the countries on the Eastern Mediterranean, Pakistan, and India. Iranian oil resources are of great importance to the economies of the United Kingdom and Western European countries. Loss of these resources would affect adversely those economies in peacetime.

b. Communist domination of Iran would damage United States prestige and seriously weaken, if not destroy, the will to resist in nearby countries, except Turkey.

c. Communist domination of Iran could only be viewed as one in a series of military, political and economic developments the consequences of which would threaten the security interests of the United States.

For these reasons, the United States should continue its basic policy to take all feasible steps to assure that Iran does not fall victim to communist control.

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[1] Attached to the source text were a cover sheet and a note by Lay which states that the draft statement had been prepared by the Staff of the National Security Council on the basis of an initial draft prepared by the Department of State. This draft has not been identified in Department of State files. Lay's note states further that the draft and the Staff Study (*supra*) were being submitted for consideration by the National Security Council at its next meeting on Mar. 21. The composite document consisting of the cover sheet, Lay's note, the draft statement, and the Staff Study were circulated as NSC 107.

Regarding the discussion of NSC 107 at the 87th meeting of the National Security Council, see the editorial note, *infra*.

2. Because of United States commitments in other areas, the current understanding with the United Kingdom that it is responsible for the initiative in military support of Iran should be continued. The vulnerability of Iran, particularly the northern part, and the paucity of the military resources available make it desirable that the United States and the United Kingdom jointly give early consideration to measures designed to strengthen the general area in order to give Iran support in depth.

3. Present conditions in Iran as well as Soviet threats to that country require that the United States further strengthen its programs in Iran in support of its basic policy. Accordingly, the United States should:

a. Continue to extend political support and military aid and accelerate economic aid as much as possible in order to (1) increase internal security in Iran, (2) strengthen the Iranian Government and people in their resistance to communist pressures, (3) bring them into closer association with the free world, and (4) demonstrate the intention of the United States to assist the Iranians to remain independent.

b. Press the United Kingdom to effect an early and equitable settlement of the Anglo-Iranian Oil Company dispute.[2]

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5. The United States should now make plans and preparations in conjunction with the United Kingdom to counter possible communist subversion in Iran and to increase support of the pro-Western Iranian Government in the event of either a communist seizure of power in one or more of the provinces or a communist seizure of the central government. Such plans and preparations should envisage political and economic support, including:

a. Correlated political action by the United States and the United Kingdom.

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c. Efforts to induce nearby countries such as Turkey and Pakistan to assist the legal Iranian Government.

d. As desirable, consultation with selected countries to attain support for the United States position.

e. Exposure of USSR responsibility and consideration of reference of the situation to the United Nations.

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[2] On Mar. 21, before the meeting of the National Security Council, the Bureau of European Affairs suggested that this paragraph be redrafted to read: "3b. Press for an early and equitable settlement of the Anglo-Iranian Oil Company dispute." (Memorandum to the Secretary of State; S/P-NSC files, lot 62 D 1, NSC 107 Series) There is no record to indicate that Secretary Acheson approved this suggestion.

6. In the event of overt attack by organized USSR military forces against Iran, the United States in common prudence would have to proceed on the assumption that global war is probably imminent. Accordingly, the United States should then immediately:

a. Seek by political measures, to localize the action to stop the aggression, to restore the *status quo*, and to ensure the unity of the free world if war nevertheless follows. These measures should include direct diplomatic action and resort to the United Nations with the objectives of:

(1) Making clear to the world United States preference for a peaceful settlement and the conditions upon which the United States would, in concert with other members of the United Nations, accept such a settlement.

(2) Obtaining agreement of the United Nations authorizing member nations to take appropriate action in the name of the United Nations to assist Iran.

b. Consider the possibility of a direct approach to the highest Soviet leaders.

c. Place itself in the best possible position to meet the increased threat of global war.

d. Consult with selected allies to perfect coordination of plans.

e. While minimizing United States military commitments in areas of little strategic significance, take action with reference to the aggression in this critical area to the extent and in the manner best contributing to the implementation of United States national war plans.

No. 8

Editorial Note

At its 87th meeting on March 21 the National Security Council considered NSC 107. The Council noted the views of the Joint Chiefs of Staff, contained in a memorandum to the Secretary of Defense dated March 19, which had been circulated to the Council, the Secretary of the Treasury, and the Director of Defense Mobilization under cover of a memorandum by Lay dated March 20. The Joint Chiefs had no objection, from the military point of view, to the use of the draft statement of policy on Iran in NSC 107 as an interim working guide, but they noted that the impact of recent events in Iran and possible international consequences might serve to invalidate certain premises on which the draft statement of policy appeared to be based, particularly with regard to actions of and correlation with the United Kingdom in Iran. They therefore recommended that the Council review the policy when the situation had clarified sufficiently to warrant it and, in any event, not later than July 1. The Council then noted the following views of the Joint Secretaries (Secretaries of the Army, Navy, and Air Force) as submitted by the Secretary of Defense:

> "The Joint Secretaries recommended that NSC 107 be rejected in its entirety.
>
> "The heart of NSC 107 is paragraph 5 and 6; what to do in case of internal subversion in Iran and what to do in case of a Soviet attack, respectively.
>
> "Neither paragraph faces up to the question. They are safe innocuous statements of generalities which do not indicate anything except watchful waiting.
>
> "A policy document for Iran must bluntly face the facts. If we cannot do anything we should say so. If we can take concrete steps in either contingency we should specifically so state.
>
> "Until a complete study as to specific manner and means by which we can protect the interests of the West in Iran has been completed we should not attempt to establish a national policy with respect to that country, particularly in view of current developments."

Finally the Council adopted NSC 107, which was subsequently transmitted to President Truman, and agreed that, if the President approved the statement of policy, the Department of State should transmit to the Council monthly progress reports on the implementation of that policy until the situation in Iran became clearer. The Council also directed the NSC Staff to review the statement of policy, if the President approved it, whenever the situation in Iran had clarified sufficiently to warrant such review and in event not later than July 1, 1951. (NSC Action No. 454)

Lay, in a memorandum dated March 26, informed the Council that the President had on March 24 approved the statement of policy in NSC 107 and had directed its implementation by all appropriate executive departments and agencies of the U.S. Government under the coordination of the Secretary of State. He informed the Council that the Department of State was being requested to transmit monthly progress reports and the NSC Staff was being directed to review the policy as agreed at the Council meeting on March 21. Copies of the Joint Chiefs' memorandum, the Joint Secretaries' views, and the record of action (NSC Action No. 454) taken by the Council at its meeting on March 21 are in the S/P–NSC files, lot 62 D 1, NSC 107 Series.

B. The Formation of the Mosadeq Government and the Nationalization of the Oil Industry in Iran

No. 9

888.2553 AIOC/3-1751: Telegram

The Secretary of State to the Embassy in Iran[1]

SECRET PRIORITY WASHINGTON, March 17, 1951—noon.

1623. FYI Dept prelim thinking re AIOC nationalization[2] as fols:

(1) While in general US does not favor nationalization, US recognizes right of sovereign states to nationalize provided prompt payment just compensation made. However, this policy not publicized abroad as it might encourage fon states to nationalize.

(2) Dept not at present opposing AIOC nationalization because of (1) and because such opposition wld in present circumstances jeopardize politically US and West in Iran and might result in loss of Iran to Sovs.

(3) Therefore, only Dept statement at this time is expression of hope Iran and AIOC will work out satis arrangements keep oil flowing to world markets view large area mutual interest.

(4) Dept principally fears precipitate action by UK and/or co or further strong notes such as preceded Majlis action regarding nationalization might have adverse repercussions.[3]

(5) Dept believes it dangerous consider Majlis action not representative Iran sentiment and for co to maneuver and lobby in Tehran in effort to have Majlis repudiate vote. US shld take care Irans do not associate US with such interference and we will endeavor dissuade UK from 1933 tactics.

(6) Dept believes Internatl Court, UN or other action probably wld not prevent final nationalization without use of force. Furthermore, exposure of case history to internatl forum now might split West and particularly alienate Asiatic and Moslem world.

(7) Dept, however, realizing great importance Iran oil to UK will consult closely with Brit and support them where possible within

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[1] Drafted by Funkhouser and Ferguson and cleared by the Office of British Commonwealth and Northern European Affairs and the Petroleum Policy Staff. Repeated to London, Moscow, Paris, Baghdad, Jidda, Dhahran, Cairo, Beirut, Damascus, and Basra.

[2] On Mar. 8 the Majlis Special Oil Commission submitted a resolution accepting the proposal of the nationalization of the oil industry. One week later the Majlis unanimously approved the resolution of the Oil Commission and allotted 2 months for consideration of its implementation.

[3] At this point in the source text the following sentence was deleted before transmission: "With delicate handling, however, situation cld result in strengthening ME against Soviet aggression."

limitations imposed by above considerations. Prelim US position outlined this tel may be modified when nature Brit reaction becomes known and situation in Iran further clarified.

(8) Irans apparently so far unaware how to put "nationalization" into effect and in next two months skillful, fresh AIOC approach looking towards future shld be able assure co continued operations in Iran. For example, exclusive management and handling of Iran oil shld be sought to avoid expulsion which we believe wld result from determined AIOC resistance to nationalization.

(9) Iran production, particularly 500,000 bpd refined products, can not be replaced at this time and demands extreme respect for Iranian bargaining position.

(10) Events in Iran over past year have repudiated UK and particularly AIOC policies re negot Supplementary Agreement. In gathering up pieces from current situation, Dept believes change in policies and/or management controlling AIOC obligatory. We shld reach same effective cooperation with UK FonOff re Iran oil as has developed over past year re Iraq oil problems.

ACHESON

No. 10

788.00/3-2851: Telegram

The Secretary of State to the Embassy in Egypt[1]

TOP SECRET PRIORITY WASHINGTON, March 28, 1951—7 p. m.

925. For McGhee.[2] Fol most recent developments Iran situation. Brit confirm recent decision reduce allowances local employees which has resulted widespread strikes in at least three cities in oil area. Press reports Admiralty confirmation naval vessels sent Persian Gulf area altho "on routine visit". Martial law proclaimed several cities in area by IranGov which has sent army reeinforcements to maintain order.

Brit have informed us both here and in Tehran they believe further negots re oil must be at governmental level; AIOC being urged prepare new proposal for presentation to govt; such presentation must await return of Shah from visit Jordan about middle of Apr; . . . .

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[1] Drafted by Rountree and cleared by Raynor and the Office of Near Eastern Affairs. Repeated to London and Tehran.

[2] Following the meeting at Istanbul, McGhee traveled to Nuwara Eliya, Ceylon, for a conference of U.S. diplomatic and consular officers in South Asia, Feb. 26–Mar. 3. McGhee then returned to the Middle East for visits to U.S. Missions in that area. For documentation on the meeting in Ceylon, see *Foreign Relations*, 1951, vol. VI, Part 2, pp. 1650 ff.

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Dept seriously concerned over these developments, and fears Brit may be fol 1933 pattern in meeting AIOC problem, even in face Iran clamor for nationalization and explosive situation which wld be created by precipitous action. Dept's views concerning best solution to problem have not been crystallized, and of necessity will be affected by Brit proposals. However, prelim view is that solution must take into acct unanimous Majlis and Senate action[3] and must provide at least face-saving device for substantial segment in Iran which has gone on record as demanding nationalization. Dept believes it unrealistic to suppose that Seyid Zia or anyone else chosen as PriMin cld be successful under present conditions in enforcing by constitutional or unconstitutional means completely negative decision re nationalization. Dangers involved in such strong-arm methods wld be very great unless there is clear evidence in advance that PriMin wld have substantial support, which doubtful.

It is recognized, of course, that there are risks in most alternative plans; for example, arrangement whereby operation wld be nationalized under IranGov which wld contact with AIOC as operating co presents problem of precedent which Sovs probably wld press re northern area and upon which IranGov might eventually be compelled to yield.

In view these developments, importance immed coordination UK-US actions, and fact Brit position probably will not be made known to us before discussion with you, you may wish proceed London ahead of schedule.[4]

Reply urtel 164 March 26 from Amman[5] concerning proposed US-UK declaration follows in separate tel.

Emb London, to which this tel rptd, requested immed obtain from FonOff reasons actions in wage reduction and naval visits at this crucial juncture, and restate request we be consulted before any decisions taken which wld have important effect upon situation.[6] FYI this connection, Dept apprecs likelihood FonOff was not

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[3] On Mar. 20 the Iranian Senate approved the law nationalizing the oil industry.

[4] On Mar. 20 the Embassy in London reported that the Foreign Office hoped McGhee would be able to stop briefly in London on his way back to Washington for general consultations on Iran. (Telegram 5006; 888.2553/3-2051) The same telegram alluded to a similar previous request that has not been identified in Department of State files.

[5] For text, see *Foreign Relations*, 1951, vol. v, p. 289.

[6] On Mar. 29 the Embassy in London reported that it discussed these questions with the Foreign Office which confidentially admitted that the cruiser *Gambia* had

Continued

aware plan reduce allowances, altho it is clearly essential in present circumstances FonOff make certain it is informed on such matters.

ACHESON

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been dispatched to Aden as a precaution against trouble at Abadan refinery in Iran. The Foreign Office stated that it had not consulted the United States about this move since it had only found out on Mar. 27. As to the wage reduction, the Embassy confirmed that the Foreign Office had not been consulted by the AIOC, but had been told that it was part of the company's normal procedure. (Telegram 5129; 788.00/3-2951)

No. 11

611.88/3-2851: Telegram

The Secretary of State to the Embassy in Iran[1]

TOP SECRET WASHINGTON, March 28, 1951—7 p. m.

1698. Dept is carefully reviewing its Iran policies in light gravity present situation and is considering possible emergency measures to cope with any further deterioration.

Dept's present policy briefly is to support Iran independence and assoc with free world through polit means, mil assistance and such econ measures as Exim loan, projected $25 million grant aid and Pt IV. These essentially long-range measures may be too inflexible for meeting crisis which might arise momentarily and, with possible exception grant aid program, have insufficient polit appeal to influence Iran policy to desired extent.

Mil aid program is being expedited, although poor reception of first impressive equipment, i.e., tanks, lends little hope that subsequent shipments will have appreciable influence upon situation. Reception accorded additional tanks now en route, however, may indicate future possibilities this program insofar as polit and psychological factors concerned. Only impediment availability Exim loan is Iran legis, passage of which in immed future believed doubtful. In any event impact loan project cannot be felt for many months and psychological value announcement wld be small. Dept is expediting Pt IV aid, although long-range and even greatly augmented program wld have little immed effect. $25 million grant aid included in other legis wld, in Dept's view, help greatly, although funds scheduled mainly for capital equipment which too wld have longer-range rather than immed impact. (However, legis as drafted wld permit in emergency use some portion for consumers goods.) Moreover, several months required for enactment legis and availability funds.

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[1] Drafted by Ferguson and Rountree and cleared by the Offices of the Assistant Secretary of State for Economic Affairs and of International Security Affairs and by the Technical Cooperation Administration.

Under present circumstances, therefore, there is little flexibility in use of these tools for dramatic impact upon Iran public opinion in a crisis, although their value shld not be underestimated. Dept urgently considering what other measures might be taken. Among difficulties involved is that Iran, as well as other countries, might conclude best way extracting US aid is to bring about crisis conditions. Moreover if Congressional approval required it wld have to be sold on "crisis" basis which might further inflame situation within Iran. Furthermore, US might be accused of underwriting Iran action in nationalizing AIOC. Recognized, however, natl interest may require proceed with some special program.

If it shld be possible for Dept in emergency obtain dols for use in Iran, it wld appear immed impact upon economy and great psychological advantage wld be derived from program designed meet current internal finan problems. Although extension US aid for this purpose wld be contrary gen policy, it is conceivable that circumstances may warrant such drastic course. Ur views as to precise way in which such funds might be utilized wld be of great value in Dept's planning for this eventuality. Aid might take form either outright grant of dols to IranGov which cld use them purchase rials, or grant consumers goods. Latter appears equally difficult in view competition with normal commerical channels with ensuing polit repercussions but such items as dried milk, eggs, pharmaceuticals, etc., may offer possibilities. Direct relief to needy in form soup kitchens, dispensaries, foodstuffs and drugs might be considered. This might encounter relatively few obstacles in Iran and wld be in line US reputation for humanitarianism. It wld, however, aside from problems re methods of implementation, establish precedent it wld be difficult to withdraw from in subsequent years and wld be difficult justify in absence any unusual emergency demanding action of this nature.

There may be some Seven Year Plan[2] projects which cld be made subj for fast US action with sufficient public appeal accomplish our ends: well drilling and pump installations in selected locations including perhaps land distributed by Shah; relatively inexpensive but impressive street paving and road projects; selected health projects; etc. Difficulties in such projects which shld be taken into account in formulating any program based thereupon include availability material, shortage of rials, and extent Amer supervision necessary or desirable. Suggestion Pt IV program be considerably expanded or that Pt IV rural improvement technicians be diverted to such "stop-gap" projects may also be worth consideration.

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[2] The Iranian Seven-Year Plan for economic development passed by the Majlis on Jan. 21, 1948.

Dept wld accordingly appreciate receiving early indication in some detail ur views re foregoing or other programs you may wish to put forward within limit of five to fifteen million dols, including ur estimate of priorities and timing most appropriate such programs. Most effective results might be from combination several types aid. It shld be understood that Dept does not at present have funds for suggested emergency program and it is by no means certain that any special program will materialize. Dept believes on basis ur communications situation in Iran at moment is such that plans must be laid now to permit fast action if required in natl interest.[3]

ACHESON

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[3] On Apr. 6, Ambassador Grady replied that economic aid to Iran would have a twofold importance: (a) political, in that it would show U.S. realization of the strategic importance of Iran and be tangible evidence of backing against Soviet aggression, and (b) economic, in that it would provide sufficient resources for economic development and encourage reform. Grady then reviewed the economic crisis facing Iran and concluded that in addition to U.S. aid the essential requirements for a solution to the crisis were "closest Anglo-Amer coordination and maintenance of oil revenue at not less than 25,000,000 pounds per year." (Telegram 2302; 888.10/4-651)

No. 12

888.2553 AIOC/4-1751

Memorandum of Conversation, by the Director of the Office of Greek, Turkish, and Iranian Affairs (Rountree)[1]

TOP SECRET [WASHINGTON,] April 17, 1951.

Participants: The British Ambassador
Sir Leslie Rowan, British Embassy
Mr. Geoffrey Furlonge, British Foreign Office
Mr. George McGhee, Assistant Secretary
Mr. G. Hayden Raynor, EUR
Mr. William M. Rountree, GTI

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[1] Drafted by Rountree on Apr. 18 and initialed by McGhee.

This meeting, continuing the British and American talks on Iran, was limited to three representatives of each government in accordance with the requests of the British Ambassador.[2]

Ambassador Franks said that, following our initial talks, the Embassy had put to the British Government the substance of the United States position on the AIOC problem as he understood it to be. The British Government had given intensive thought to this problem and the Ambassador had now received a communication setting forth the present views of the Foreign Office and the Foreign Minister, which had not yet been presented to the British Cabinet.

Ambassador Franks said that the present Foreign Office thinking is that the problem should be approached in two stages: (1) diplomatic efforts in paving the way for negotiations and (2) the negotiations themselves. While he could not say now how the detailed negotiations would take place, he said that the "stage setting" should be handled by the British Government and not by AIOC.

It is proposed by the Foreign Office that the British Ambassador in Tehran call upon the Iranian Prime Minister and put to him in an informal manner the following points:

A. That the British Government cannot accept the Iranian position that the AIOC controversy is not a matter of concern to it. The British Government is vitally concerned in this important British interest.

B. The Ambassador would then review the actual situation as regards the AIOC controversy, pointing out the several major factors involved. These would include: appropriate recognition of the Majlis legislation concerning nationalization; the fact that the company is in Iran by virtue of an agreement which does not allow for unilateral cancellation; the importance of the industry to Iran and Great Britain, as well as to the entire free world; and the need for mutually acceptable arrangements which would permit the company's continued operation, recognizing the adverse consequences to all concerned if this were not done.

C. The Ambassador would then reiterate the interest of the British Government in the independence and integrity of Iran and in the welfare of the Iranian people. He would point out that in the common interest the oil situation should not be permitted to interfere with the continued good relations of the two countries.

D. The Ambassador would say that it is possible to turn the present situation to advantage by establishing a new relationship and association with respect to the oil industry under which both countries would benefit.

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[2] Telegram 1825 to Tehran, Apr. 11, provided a summary of the first two meetings. The Department felt that the British position in Iran demonstrated some flexibility but expressed doubt that any British plan which did not recognize the principle of nationalization of the AIOC would be hard to sell to the Iranians. (888.2553/4-1151)

E. The Ambassador would then consider means by which this relationship can be developed, (1) in its long-term aspects and (2) in its short-term aspects. With regard to the long term, the Ambassador would recognize the desire of the Iranian people to participate to a greater extent in the oil industry and would say that the British Government would earnestly support means to accomplish that end. Under the terms of the present contract the total assets of the company would pass to Iran upon expiration of the concession in 1993. If title should pass before that time, the Iranian Government would be liable for compensation and the possibility of a substantial loss of revenues from the operation. This would impose an unnecessary burden, and it is desirable therefore that a plan be evolved to enable Iran to obtain the assets by more practicable means. The British Government will cooperate fully in this plan.

As to the short-term aspects, any agreement concerning the operation of the company would be as between the Iranian Government and AIOC, and the British Ambassador could do no more than suggest broad lines along which the form of this agreement might take. Generally speaking, the arrangement might include the creation of a new company, registered in the United Kingdom, which would hold the concession and assets of AIOC in Iran. Iranians would be represented on the Board of Directors of this corporation, the profits of which would be shared equally. The arrangement might include the distribution of petroleum products within Iran by a separate Iranian firm owned and operated by Iranians, who would receive the fullest cooperation of AIOC. The Ambassador would recognize the common desire of the two governments for Iranization of the new UK-registered company, and the British Government and AIOC would cooperate fully in carrying out an Iranization scheme.

F. The Ambassador would then express the hope that the Iranian Government will feel ready to open negotiations along the broad lines outlined. However, he would point out the desirability of establishing a clear basis upon which the discussions will take place and would suggest an exchange of notes between the British and Iranian Governments including the following points:

(1) A statement of mutual good will.
(2) Recognition of the British Government's desire that the Iranian Government assume in due time full control of the oil operation.
(3) Recognition of the British Government's desire to bring about greater and increasing Iranian participation, commencing at once.
(4) Agreement upon the necessity of the two governments' consulting on all points of disagreement under the new arrangement which might be evolved.

The Ambassador pointed out that the foregoing course has been decided upon after taking fully into account the suggestions of the Department's representatives, for which the British Government was most appreciative. He recognized, of course, that all of the points made on the American side had not been met, but felt that a good deal of ground had been given. He commented that the British would be opposed to any course which would represent straight appeasement to the pressures that had been created, as it felt that not only would a great deal in Iran be lost but that a dangerous principle would be established. On the other hand, the British feel compelled to take fully into account the events of the past two months in Iran and must therefore be prepared to accommodate itself to some extent to the new situation thus created. The Ambassador felt that both the British and the Iranians must give from any extreme positions toward the middle, and thus accomplish an agreement which would be in their mutual interest.

The Ambassador expressed considerable confidence that the approach adopted by the Foreign Office had many constructive elements, and that it therefore had a good chance of success. He therefore hoped that the United States Government would give its "quiet support" to the plan. He particularly requested, with regard to the proposed exchange of notes with the Iranian Government, that we be prepared to indicate informally to the Iranians that a relationship permitting further detailed negotiations should be established.[3]

Mr. McGhee, in thanking the Ambassador for outlining the current British views, said that he was pleased to note several improvements over the proposal set forth during earlier meetings. He pointed out that Ala had previously taken the position that the matter of the AIOC negotiations is as between the Iranian Government and the AIOC, and his position in Iran would therefore be difficult if he undertook discussions with the British Government. Ambassador Franks replied that the British distinguished between the talks which Ambassador Shepherd would have with Ala, which would be completely informal and unpublicized, and the actual negotiations which would, of course, be between the company and the Iranian Government. The British Government feels, however, that it must approach Ala in the first instance to provide a broad basis upon which the negotiations can take place.

Mr. McGhee expressed some concern that the proposal still would not provide a basis upon which the Iranian negotiators could claim that it recognized the principle of nationalization. He wondered, therefore, if the greatest possible effort had been made to inject into the British proposal elements which would make it possible to square the plan with the nationalization clamor. Ambassador Franks, admitting that he could only guess upon this point, said that he felt that there were enough such elements in the proposal to enable the Iranians satisfactorily to handle this aspect, provided they wanted to do so.

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[3] Attached to the source text was a summary of the U.S. views on the position set forth by Ambassador Franks, not printed; regarding these views, see the memorandum of conversation, *infra*.

Mr. McGhee commented that the only three elements in this connection are (a) Iranization of the company, (b) the 50-50 sharing of profits, and (c) the creation of an Iranian firm to handle internal distribution of petroleum products. He wondered whether it would not be possible, perhaps even by some fiction, to provide more of a selling point to the Iranians. At this juncture, Mr. McGhee said that the Department had, following our first meetings, given considerable thought to the previous British proposal, and had formulated certain views which he would like to set forth, even though the more recent information from Ambassador Franks met many of the points.

(Mr. McGhee then read the attached paper, a copy of which he informally handed Ambassador Franks.)

In reverting to the new British proposal, Mr. McGhee again emphasized that his major concern was whether it could be adapted to the principle of nationalization. He expressed the feeling that in its present form it does not go sufficiently far in this direction so that the Iranian political forces demanding nationalization can be placated. He said, however, that the Department's representatives will consider the British proposal carefully and would endeavor to be prepared by April 18 to make specific comments.

Ambassador Franks said that, whether or not the Department's representatives agreed upon the precise lines of the British proposal, he hoped that the United States would feel that the general approach is reasonable and that we would therefore give it our quiet support. The Ambassador was convinced that the plan is a good basis upon which to begin discussions with the Iranians and that, while he may be wrong, it has a good chance for success. The Ambassador asked that the Department take fully into account this British view in formulating its own position.

In reply to Mr. Raynor's question, the Ambassador stated that the British plan for the creation of a new corporation registered in the United Kingdom did not contemplate that the Iranian Government would be part owners. Mr. McGhee pointed out that this may be the main difficulty in the plan, and commented that it may be possible, consistent with the principle of equal sharing of profits, to establish some basis upon which Iranian partial ownership can be established without in fact diminishing the effective British control of the company. He said, however, that further comment in this connection would be withheld until the Department had a chance to study the plan in more detail.

The Ambassador said, in reply to Mr. Raynor's question, that the British Government would not favor the registration in Iran of the new corporation, as this arrangement would place the corporation at the mercy of the Iranian parliament.

Mr. McGhee referred to the persistent rumors in Iran that the British are endeavoring to bring about the downfall of Ala and installation of Seyid Zia as Prime Minister, and said that while we gave no credence to such reports we felt that the existence of the rumors had in fact created a difficult situation. He expressed the belief that both the British and American governments should give wholehearted support to the Shah and, while he is in office, to Ala, and felt that anything the British could do to assure Ala that he does have British support would be to the good. In this connection, Mr. McGhee said that the Department is considering a new program in Iran which would provide additional concrete proof of our support of the Shah and his Government, and suggested that Mr. Rountree and Mr. Furlonge discuss in more detail the elements of that program in a separate meeting. (This meeting was arranged for April 18.) Mr. McGhee expressed the hope that the British Government would consider what steps it might take to bolster the position of the Shah and his Government.

Mr. McGhee referred to telegrams that had been received from Tehran to the effect that the British frigate *Flamingo* will steam slowly past Abadan to Basra. He said that the Iranian Government had indicated concern over the possibility that British action implying the threat of force would create an extremely serious situation, and expressed the hope that the movement of the frigate near Abadan could be cancelled. At Mr. McGhee's request, the Ambassador undertook to convey this view to the Foreign Office.

[Attachment]

Paper Prepared in the Department of State

TOP SECRET [WASHINGTON, undated.]

United States views on questions raised during discussions with the British on Iran:

1. Although we recognize that many aspects of the present situation in Iran are matters to be dealt with directly by the AIOC and the British Government on one hand and the Iranian Government on the other, nevertheless, because of our own great interest in Iran, we wish to make known our views as clearly as possible with the hope that agreement can be reached as to the future courses of action by the US and UK Governments. We would like to empha-

size the vital necessity of full cooperation in future actions with respect to Iran by the US and UK Governments and their respective oil interests.

2. We fully understand the importance of the AIOC to the UK economy. We would expect, however, because of the overriding importance to the UK, the US and the whole free world of continued peace and stability in the area and the continued flow of Iranian oil into world commerce, that the UK will not allow these objectives to be subordinated to commercial or balance of payments considerations.

3. We would be opposed to the adoption of "strong" measures by the British to obtain a favorable solution to the problem of the AIOC concession, such as the manipulation into office of an Iranian Premier of UK choosing or the introduction of force or the threat of force. We assume that the British do not now contemplate such action . . . .

4. In our judgment, the original offer for continuation of AIOC operations as proposed by the British delegation in the meeting of April 10 will not be acceptable to the Iranians since it does not even pay "lip service" to nationalization; that it, therefore, faces certain rejection; that the United States as a result cannot support it and strongly recommends that the British not make such an offer since it would tend to prejudice Iranian acceptance of any future offer.

5. The US does not wish to propose specific terms which might be acceptable both to the AIOC, the UK and Iran, since it is believed that any specific proposal should come from the AIOC. It nevertheless feels that to be acceptable any such proposal must, as a minimum, embody the following elements: accommodation to the principle of nationalization; fifty-fifty profit sharing or its equivalent; progressive Iranianization; satisfactory arrangements for internal distribution of oil products. It is hoped that AIOC can maintain operational control, and that the stability of the AIOC position and concession rights in the Middle East generally will not be weakened.

6. The United States could only support a proposal to the Iranians which it feels has a reasonable chance of success. Any United States support of a specific proposal the AIOC may make to the Iranians would be general and not support for the particular provisions of the offer, would not be public and would, for the time being at least, be confined to discreet diplomatic action by the American Ambassador.

7. Aside from the particular solution to the Iranian oil problem, the United States believes that the British and American Governments independently should render all possible support to the Shah

and the Iranian Government. This support should be backed up by economic and technical assistance, and military equipment and training, to the fullest practicable extent. For its part the United States is prepared immediately to consider increasing military assistance and the extension of grant economic aid in addition to loans which already have been authorized.

No. 13

888.2553 AIOC/4-1851

Memorandum of Conversation, by the Director of the Office of Greek, Turkish, and Iranian Affairs (Rountree)[1]

TOP SECRET [WASHINGTON,] April 18, 1951.

Participants: The British Ambassador
Sir Leslie Rowan, British Embassy
Mr. Geoffrey Furlonge, British Foreign Office
Mr. George McGhee, Assistant Secretary
Mr. G. Hayden Raynor, EUR
Mr. William M. Rountree, GTI

This meeting, confined to three representatives of each government in accordance with the request of the British Ambassador, represented the final one of the series of talks with the British on Iran. The British officials who came to Washington for this purpose will depart on April 19.

Mr. McGhee said that the Department's representative had given considerable thought to the course of action proposed by Ambassador Franks in the meeting of April 17.[2] He said that while the proposal had several good aspects, he frankly did not believe that it contained enough in the direction of nationalization to make it saleable to the Iranian Government. As to proceeding with that particular plan, however, he felt that a great deal depended upon the tactics employed. If it were presented to Ala on a completely informal and exploratory basis, it is possible that there would not be much reaction even if it proved to be unacceptable. On the other hand, if it were put forward more formally as a definite proposal there is, in the Department's opinion, a serious possibility that the United Kingdom, and more indirectly the United States and the entire West, would be placed in the position, in the Iranian view, of opposing the forces of nationalization. Mr. McGhee elaborated upon the dangers involved in this possibility, pointing out that it would place the Communists, riding upon the wave of nationalization, in an extremely strong position. Such a development would, of course, seriously weaken the British in regard to any subsequent plan which might be put forward. He therefore strongly urged the British to reconsider their present plan with the objective of adding more of a "flavor" of nationalization in some form that would have minimum effect upon the actual control of the company's operations.

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[1] Drafted by Rountree on Apr. 19 and initialed by McGhee.

[2] Regarding this meeting, see the memorandum of conversation, *supra*.

Mr. McGhee said that he did not wish to put forward specific suggestions as to how this might be done. He said, however, that the problem might be met by the creation of a new Iranian entity in which the sub-soil rights would be vested; this corporation would in turn deal with the AIOC affiliates along the general lines of the present British plan. As another example, a new company might be created with partial Iranian ownership in which the total rights, both sub-soil and production, would be vested.

Mr. McGhee continued by saying that if such a formula could be found, Ala might be able to put it forward to the Parliamentary oil commission as a plan which they themselves could present to the British. In his view it is extremely important that the commission have some idea as to what might be acceptable to the British. He said that a great sales point in the British plan is the "no compensation" element, since any Iranian solution requiring compensation would be onerous to them, especially since they will in any event ultimately get the assets without payment. In the meanwhile they would be receiving 50 per cent of the profits, which probably would represent a larger income than would be possible under Iranian operation.

Mr. McGhee said that if, notwithstanding our strong view on this point, the British are determined to proceed with the present plan, he does not believe that the United States could support them and thus place itself in a position of opposing the forces of nationalization; if, however, a more reasonable formula can be found, we would give them appropriate diplomatic support.

Ambassador Franks expressed disappointment in these views. He said that, with regard to the paper handed to him by Mr. McGhee on the previous day outlining the Department's reaction to the original British plan, he "had no quarrel" with most of it.[3] However, he wondered if the paper, and thus the United States thinking, recognized adequately that the British are dealing with a prime strategic necessity. He said that we could not under-estimate the defense aspects of the current problem. The Ambassador did not suppose that what the United Kingdom had put forth would be exactly what the United States representatives had considered to be the best plan; however, they had come a substantial way toward meeting the points presented by the Department, always bearing in mind the minimum requirements for effective British control.

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[3] Printed as an attachment to the memorandum of conversation, *supra*.

In regard to the nationalization aspect, the Ambassador said that the exchange of notes with the Prime Minister would fully recognize the desire of the Iranians to obtain control of their oil resources and production, and further state the desire of the British Government, by adapting the existing agreement, to make this possible. In the Ambassador's view, this general line does offer some accommodation to the principle of nationalization, although admittedly it does not go as far as Mr. McGhee had suggested.

Regarding Ambassador Shepherd's approach to the Iranian Government, the Ambassador said that it should not be assumed that he will have the attitude of putting things forward simply to be knocked down; on the other hand, he will not engage in discussions with a closed mind. The approach to Ala will simply be for the purpose of opening discussions upon the subject and will be completely informal. Subsequent policies and action might, of course, be affected by developments in this initial approach.

Regarding Mr. McGhee's comment that we could give support to the present British plan, the Ambassador wondered what was meant. Under the circumstances, there would be no such thing as complete neutrality. If the United States must be neutral, the British would very much hope that it would be a benevolent neutrality; he hoped, of course, that we could go farther. The British know that in any case we would not talk against their plan or endeavor to undermine it, but unfortunately in the present situation a "sad silence" is a verdict.

Mr. McGhee replied that, regarding the strategic aspects of the current problem, the United States did not fail to appreciate the importance to British defense efforts of a satisfactory solution and, indeed, the paper setting forth the Department's views recognized this.

Regarding American support of the British plan, Mr. McGhee said that our objective is to help stabilize the situation in Iran and render all possible support to the British. However, he emphasized again that it would not be in the interest of either country, or in the interest of the West as a whole, for the United States to become identified with any plan put forth by the British which did not recognize the principle of nationalization and which thus would run an undue risk that we would be placed in opposition to those forces demanding nationalization. For us to take a positive position upon a specific plan might place us in that situation. He said, however, that any neutrality would be benevolent; we will go as far as we can, bearing in mind our desire not to become directly involved in the nationalization issue. He pointed out that the British proposal contained very little that is new. The Iranians already assume that they will obtain the total assets, at least by 1993, and this would merely be confirmed in the new plan; they have already been told that they would obtain an equal share of the profits; previous agreements already have recognized the principle of Iranization and this will therefore not be new. The only new aspect is the creation of an Iranian company to handle internal distribution of petroleum products in Iran. He therefore did not see how the plan could be squared with nationalization in the view of the Iranian negotiators. This does not mean, however, that he was suggesting throwing the plan overboard. He was merely suggesting that a new element be found.

Ambassador Franks said that Mr. McGhee's views would be given most careful consideration, although he felt that the British Government could not accept the suggestion unless it were shown that there would not in fact be a serious diminution of control by the company. On the other hand, if some new arrangement could be developed which would not diminish the effective control he felt that the British would be receptive. He said that, while further concessions might in fact be made, he felt that they could not sway with the storm so soon against their interests. In such negotiations appetites grow by what they feed upon. On the other hand, the British must guard against the danger of too little, too late. Ambassador Franks said that the British had hoped that the total package of their plan contained so much of our common views that we would go so far as saying it is worth looking into; he would be disappointed if that is not possible. His apprehension is that, if we are not convinced that the plan has some chance of success, the American attitude might be to wonder how long it will take Ambassador Shepherd to sink. He was glad of Mr. McGhee's assurance that any neutrality would be benevolent neutrality, and said that Ambassador Shepherd would be instructed to keep closely in touch with Ambassador Grady during all stages of his conversations.

Mr. McGhee again emphasized the desirability of a completely informal approach to Ala in the first instance for the purpose of seeking his views as to whether the plan has any chance of success. No risk would be involved in this since, if it is considered by Ala to be unacceptable, a public explosion would be avoided.

Ambassador Franks said that it was intended that the initial approach to Ala would be informal and his reaction might affect the nature of the tactical approach from that point. He pointed out again that looming large in this connection are the respective assessments by the United States and United Kingdom of the depth of feeling in Iran concerning nationalization and the real force of the advocates of nationalization. He believes, based upon the British assessment, that the suggested line has a reasonable chance of success.

Mr. McGhee, in summarizing his position, said that he strongly recommended including in the British plan at least some facade of nationalization. If the British nevertheless go forward under the present plan, he hopes that it will be through a gradual process and handled in such a way that bridges will not be burned if it becomes obviously necessary to seek a new course. Should the British be prepared to offer more to the Iranians, it might be possible for the United States to extend more support. In any event, they would have our benevolent neutrality, although we certainly could not lend support in the face of strong reaction.

Turning to oil questions in other countries, Mr. McGhee said that it had been agreed by IPC to extend an offer to Iraq for equal sharing of profits. If this offer is followed through and the necessary company reorganization is accomplished, he feels that the question of nationalization in Iraq will be avoided. He asked that the British Government use its influence with AIOC (a partner in IPC) to assure that the negotiations with Iraq and implementation of the new arrangement do not become bogged down.

Regarding Kuwait, Mr. McGhee referred to discussions which had taken place between AIOC and the American partner of the Kuwait enterprise (Gulf Oil Company) and said that the American partner is anxious to proceed at once with a 50-50 offer. Although AIOC appears to feel that such an offer should be delayed for some time, perhaps as long as two years, the American company believes that the stability which would be assured by moving at once would be well worth the cost. The assistance of the British Government was requested in influencing the AIOC to agree to an immediate 50-50 offer, and in facilitating the necessary company reorganization, permitting the organization of an American company to exercise the rights of the Gulf Oil Company.

Ambassador Franks took note of Mr. McGhee's comments concerning Iraq and Kuwait and said that he would pass them on to the British Government.

Ambassador Franks said that since this was the final meeting of the present series, he felt that a brief press release should be issued, and put forward a draft which had been prepared by the British Embassy. Since this draft was not acceptable to the Department's representatives, it was agreed that Messrs. Furlonge and Rountree would jointly prepare a statement.[4]

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[4] No copy of the British draft communiqué has been found in Department of State files; for the text of the communiqué released to the press on Apr. 19, apparently the statement prepared by Furlonge and Rountree, see Department of State *Bulletin*, Apr. 30, 1951, p. 700.

On Apr. 20, McGhee transmitted to Secretary Acheson a memorandum summarizing the four talks with the British and stating:

"It was clear from the discussions that the British, at least on the surface, do not consider the depth of the nationalization clamor in Iran to be as great as it is in the Department's view. Consequently, it is clear that the British believe that they can get by with fewer concessions than we think possible." (888.2553/4-2051)

On Apr. 25, Bernard Burrows told Rountree that the Foreign Office had given general approval to the proposals made by Ambassador Franks on Apr. 17 without modifying them as a result of the suggestions made by McGhee on Apr. 18. (Memorandum of conversation, by Rountree; 888.2553/4-2551)

No. 14

888.2553/4-2051: Telegram

The Secretary of State to the Embassy in Iran[1]

TOP SECRET PRIORITY WASHINGTON, April 20, 1951—7 p. m.

1909. Eyes only Ambassador Grady.

[Here follows a summary of the talks with the British and an outline of the plan which Ambassador Franks explained to McGhee at the meeting on April 17 (see Document 12).]

Shld Brit make offer in its present form and you are asked for comments by Ala, Dept wld appreciate ur taking line:

1. Offer taken by itself has some good pts.
2. It is important to find some formula upon which negots can begin.
3. You regret you cannot comment specific details of proposal or its implications vis-à-vis Iran demand for nationalization.[2]

Dept realizes ur position will be most difficult in view unfortunate publicity given conversations here and hopes you will be able to make clear US not intervening. Shld Brit alter proposal along lines suggested by Dept, nature of support we wld extend wld depend on circumstances existing at time but present Dept contemplates you, as you have suggested, working discreetly behind scenes with Shah and Ala with public US position remaining as at present. Dept informed Brit while it cld not support present proposal, it wld adopt policy of "benevolent neutrality" and it is important to avoid impression US opposes offer. Silence as reflected in "no comment" reply to Irans might be interpreted as opposition and hence, in this event, wld be important include points one and two above in reply. Dept aware extreme difficulty maintaining position this sort in Iran and hopes therefore Brit will be able to make proposal we can earnestly support, though in quiet diplomatic approach.

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[1] Drafted by Ferguson and cleared by the Bureau of European Affairs and the Office of the Assistant Secretary of State for Economic Affairs. Repeated to London.

[2] For text of the *aide-mémoire* containing the British proposals as delivered to Prime Minister Ala on Apr. 26 by Ambassador Shepherd, see British Cmd. 8425, pp 28–29.

Aside from specific question of oil, Dept discussed polit situation at some length with Brit.[3] Dept expressed its opinion Ala doing competent job and he and Shah shld have full support both US and UK. . . .

Irans have not as stated in reftel been informed of substance conversations. Dept told Entezam Apr 19 discussions were, as he had been informed earlier, purely informal exchange of views and included such matters as effect Iran nationalization on world economy, technical petroleum aspects situation and, under no circumstances, cld be interpreted as meeting for adoption common policy or attempt intervene in matter which cld only be settled elsewhere by parties directly concerned. Dept informed Entezam it has conveyed to Brit Ala's appeal against use of force and assured him we are confident nothing of this nature wld be attempted.[4]

Essential that all of above be treated with great caution. Dept wld appreciate distribution being limited only to those officers of Emb whose duties require their being informed.

Ur tel comments requested soonest. Full report fols by mail.

ACHESON

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[3] In a subsequent telegram, Grady was informed that the Department of State was disappointed that the talks with the British had been confined almost exclusively to the AIOC problem and that they had failed to put forward any positive ideas on other political and economic aspects of the Iranian crisis. The British had seemed only moderately interested in U.S. plans to render increased assistance to Iran and had disclosed no similar plan. (Telegram 1930, Apr. 23; 888.2553/4-2351)

[4] No further record of a conversation with Ambassador Entezam has been found in Department of State files; however, a memorandum from Rountree to McGhee, dated Apr. 19, refers to an expected meeting with the Ambassador at 4 p. m. that day and suggested that McGhee should assure him as follows:

"(1) The talks were purely informal exchanges of views; (2) that no joint policy was even discussed; and (3) that both the United States and British Governments fully realize that the solution to the oil question can only be found by the Iranian Government and the oil company." (888.2553/4-1951)

According to Ambassador Entezam who talked to newsmen late in the day on Apr. 19, he had met with McGhee that afternoon and been assured that no negotiations were going on between the United States and the United Kingdom regarding the AIOC dispute with Iran. (Department of State *Wireless Bulletin*, Apr. 20, 1951, p. 7)

No. 15

Editorial Note

On April 26 the Special Oil Commission unanimously adopted a nine-point resolution implementing the oil nationalization law and calling for the eviction of the AIOC and the establishment of a joint Senate–Majlis committee to run the oil industry. The "9-Point Law" was passed unanimously by the Majlis and the Senate on April 28 and 30, respectively, and promulgated by the Shah on May 1. On the day that the law was promulgated Foreign Secretary Morrison expressed in the House of Commons the willingness of the United Kingdom to settle the dispute by negotiation but stated that the British could not accept unilateral cancellation of a contract by the Iranian Government. On the following day, in a message to Ambassador Shepherd for delivery to Mosadeq, the newly-appointed Prime Minister, Morrison proposed arbitration of the dispute. This proposal was rejected by Iran on May 8.

For the texts of the "9-Point Law," an extract from the statement by Morrison in the House of Commons, the message to Shepherd, and the Iranian rejection, see *Documents* (R.I.I.A.) for 1951, pages 480–485; with the exception of the extract from Morrison's statement, texts of these documents are also in British Cmd. 8425, pages 29–33.

No. 16

Editorial Note

The first progress report on NSC 107 (Document 7) was considered by the National Security Council (NSC Action No. 473; S/P–NSC files, lot 62 D 1) at its 91st meeting on May 16 during which Secretary Acheson made an oral report on the recent developments connected with the oil nationalization issue. In general the Council concurred with Acheson's views, but the point was made that the United States "should indeed give vigorous support to the British in reaching an equitable settlement . . . ." President Truman, who presided at the meeting, then authorized Secretary Acheson to proceed, in connection with the oil nationalization issue in Iran, along the lines he had proposed and which had been discussed by the Council. A summary of the discussion at the Council meeting is attached to a memorandum from Lay to Acheson, dated

May 17, in file 788.00/5-1751. The progress report is in S/P-NSC files, lot 62 D 1, NSC 107 Series.

No. 17

781.13/5-251: Telegram

The Ambassador in Iran (Grady) to the Department of State[1]

SECRET TEHRAN, May 2, 1951—1 p. m.

2650. Mosadeq, whom I saw this morning, most cordial and eager for Amer goodwill and assistance.[2] He expressed appreciation of our non-interference in oil question. He expressed confidence in our disinterestedness and fine intentions re Iran, but with warmth criticized Brit interference in Iranian affairs which he is dedicated to put stop to.

I stated our position with regard to nationalization and stressed that it is absolutely necessary that there be no confiscation or partial confiscation of the oil company's property. In this connection, I emphasized that negotiation with the Brit was necessary. He said there was nothing to negotiate as the Majlis had acted. This, I said, was unilateral action and if there was no negotiation, very bad impression wld be made in our govt and in Amer public opinion. I avoided discussing the particulars of the oil resolution. I pressed the importance of approach and procedure rather than program which is matter for the Brit.

On our program of mil and econ aid, he put all stress on econ. He rather depreciated what we have done up to now and said if he had had his way our Point IV wld have been rejected as quite inadequate. I stated emphatically that Iran was under no obligation to accept any aid either mil or econ. I called his attention to fact Export-Import Bank loan has been available for four months, that had it been accepted promptly agric equipment provided by the loan wld already be in Iran stimulating its econ recovery. He wished shortly to have full discussion with me re the loan and ended by saying if the Iranians up to now had had their just dues from oil, they wld need no foreign loans or foreign assistance of any kind.

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[1] Repeated to London.

[2] On Apr. 27 Prime Minister Ala suddenly resigned and the Department of State cabled Grady asking whether the British had been responsible. (Telegram 1976 to Tehran, Apr. 28; 788.13/4-2851) Ambassador Grady replied that there was no evidence to suggest British responsibility and that in an interview on Apr. 30 Ala indicated that he had resigned because Mosadeq and the Special Oil Commission were consistently ignoring his government and going directly to the Majlis. (Telegrams 2603 and 2633 from Tehran, Apr. 29 and May 1; 788.13/4-2951 and 888.2553/5-151) Two days after Ala's resignation, the Shah approved Dr. Mohammad Mosadeq as Prime Minister.

Grady

No. 18

788.00/5–751: Telegram

The Ambassador in Iran (Grady) to the Department of State[1]

SECRET TEHRAN, May 7, 1951—noon.

2692. Had luncheon Sat with Shah. He feels better but is still concerned about his health. He feels quite unhappy about oil legislation, and selection Mosadeq, but on basis past procedure, he had no alternative but to accept both. He indicated he did not expect Mosadeq to last long. He is pessimistic with regard to a satisfactory solution of oil question. I never find him confused as we have reported several times Shepherd does. He is very clear and sound in his thinking. He said little to me about the Brit, but Ala tells me he has lost faith in them and fears what they may do. I have told the Shah and other Iranian leaders that the Brit approach is conciliatory and that if they are met in the same spirit an agreement on oil matter can be reached satisfactory to all concerned. A number of Iranians have expressed to me gratification Morrison's last speech in Commons.

I had mtg Sat evening with group of Senators, including Ala (Embtel 2488, Apr 19[2]). They assured me Mosadeq wld not move precipitously on oil matter. They agreed with me that the comm soon to be appointed shld take time to get all the facts and all the technical assistance needed. They felt, especially Taqizadeh, that Mosadeq's selection might prove a blessing in disguise for he is the only one who can present a program to the Majlis that has any chance of acceptance.

The group felt that everyone, including the Brit, shld try hard to work with Mosadeq and direct him along sound lines. Of course, I agreed. We all agreed that Mosadeq himself has not the capacity to come to real grips with this problem or probably any other. He is also unreliable as he completely misquoted to Shah my conversation with him but he does seek the best interests of his country as he sees them. All agreed that the oil question is a symbol for the expression of the present intense nationalist drive. Iranians can for the first time defy the powers that have dominated them in the past. The fanaticism is a reflection of the "independence" complex which I have seen in a number of countries. This is not by any means all bad as it also affects their attitude toward Russia. The right kind of patriotism cld pull this country out of its despair. Ala told me Mosadeq had offered him the Ministry for FonAff but when they discussed their views, Ala cld not accept Mosadeq's "neutrality". Ala insists on a strong pro-West position. Mosadeq believes Iran must "appease" Russia so Ala was not appointed FonMin. I am not pessimistic about the future of Iran. Despite harsh criticism of US at times, the Iranians believe in US. They know we seek here nothing but their welfare and independence. They are genuinely disappointed that our aid has been so slow and is as yet so small, but we can make up for that in the months ahead. Russia is doing nothing for them, so time is on our side, despite insidious and well organized Sov propaganda here against US.

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[1] Repeated to London.

[2] In telegram 2488 Grady reported that he had been meeting for some time with a group consisting of Senators Taqizadeh, Shafaq, Sadig, and Madsoudi and Prime Minister Ala to discuss Iranian problems. (888.2553/4–1951)

The whole group agreed that Mosadeq wld not be sympathetic to our Exim Bank loan—too little and too late. The Shah urged me not to press the loan matter until a more sympathetic govt was in. I am more convinced than ever that we shld have given Razmara a loan of $100 million to dangle before the Majlis. The conditions I recommended wld have protected us. What if they did say we promised them $100 million when they are already saying we have promised them $250 million. Even placing the dangers of accusations of unfilled promises against the hazards we ran and are now facing, there can be little doubt as to the sound choice. I am disturbed that the President's program for grant aid will be announced before I can get Mosadeq to act on the loan. I cannot from the standpoint of Amer prestige press him though I will see him shortly on the matter.

My group discussed what shld happen if and when Mosadeq's govt fell. All were emphatic that to put in "a strong man" and have govt by decree wld be a fatal mistake. It wld, in their opinion, cause revolt against the Shah and throw the country into chaos.

GRADY

No. 19

888.2553/5-751: Telegram

The Ambassador in Iran (Grady) to the Department of State[1]

SECRET TEHRAN, May 7, 1951—3 p. m.

2694. Fol is Emb's appraisal strategy and prospects of Mosadeq Cabinet in light developments reported Embtels 2661, May 3 and 2689, May 7:[2]

(1) Mosadeq will concentrate attention his govt on solution oil issue to exclusion almost every other consideration. Electoral reform, while apparently also being pushed, will be dropped if serious Majlis opposition develops. Similarly, request that Majlis approve entire budget current fiscal year instead of usual series of monthly authorizations may be brought forward, but will not be pushed.

(2) Selection members Joint Oil Comm will probably be made promptly. Although National Front member has privately denied efforts being made to influence selection, it appears highly probable Mosadeq will largely control choice. Intrigue of pro-Brit elements is, of course, possibility, but given present temper of Parl and public, successful packing of Comm or blocking of appointments not believed probable.

(3) Once Comm formed, Mosadeq will move cautiously. He has already intimated to Brit desire to take over control with minimum of dislocation and to avoid breakdown of production. Emb inclined to believe nominal taking-over by Joint Comm (necessary for domestic publicity purposes) while substantive settlement is discussed, might be acceptable to him. He will, however, press discussions to reach definitive settlement within three months, if possible. Emb has as yet no info concerning his reaction to Shepherd proposals to Ala, nor (except for vague ideas re evaluation company claims reported Embtel 2100 Mar 17 and 2113 Mar 19[3]) concerning Mosadeq's ideas on fair settlement. Emb shares Brit's impression concerning his lack of concrete factual info on oil operations and doubts any concrete plan or change-over of management and settlement with AIOC has yet been formulated.

(4) Aside from foregoing, Mosadeq's present strategy believed designed to avoid friction with Majlis. His cabinet, composed largely

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[1] Repeated to London.

[2] Telegram 2661 transmitted the text of Mosadeq's statement to the Majlis at the time he presented his Cabinet. (788.00/5-351) Telegram 2689 reported that the Majlis had given Mosadeq a vote of confidence with 99 in favor and 3 abstaining. (788.00/5-751)

[3] Neither printed.

of well-known political time-servers from previous administrations, unlikely do anything antagonize Deputies. Long-range projects likely arouse opposition will be shelved. Administrative reforms begun by Ala will be held in abeyance. Loan agreement unlikely receive early consideration. Majlis will be left as much as possible to own devices. Mosadeq's method of working is to concentrate on one thing at time.

(5) From standpoint Mosadeq tenure office, Emb believes this strategy likely to be successful at least for three months specified in Oil Comm resolution. Obviously critical test will come when Joint Oil Comm submits its settlement proposals to Majlis. Mosadeq will have to assume responsibility these proposals. In view his leadership nationalization drive and his present popular following, he appears in especially favorable position to secure acceptance of reasonable settlement if he can be persuaded to make one. Factors which might produce earlier upset include:

(1) Mosadeq's own health, which is precarious.

(2) Popular impatience, possibly Tudeh-stimulated, shld present expectation early oil settlement be disappointed (obviously the longer settlement is delayed, the more difficult this position will become).

(3) Popular administration with do-nothing policy except on oil issue. (In view comparatively satisfactory econ situation this spring last possibility considered improbable.)

(6) Despite unfavorable implications of foregoing analysis for early attainment our own programs in Iran, Emb perceives no feasible alternative for the present but to continue to extend to Mosadeq same measure of cooperation accorded Ala and Razmara. He has indicated desire for such cooperation (Embtel 2650 May 2[4]) and unless instructed to contrary, I intend to fol this policy. On the positive side, continued demonstration of our goodwill may afford us the opportunity to influence favorable settlement of oil issue.

GRADY

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[4] Not printed.

No. 20

788.13/5-1051: Telegram

The Secretary of State to the Embassy in Iran[1]

TOP SECRET WASHINGTON, May 10, 1951—noon.

2067. Eyes only Amb. Dept perceives most serious danger in possibility that Mosadeq, in carrying out his "neutral" policy and in line his gen attitude re presence fon missions in Iran, may take action which wld seriously threaten Iran security and render attainment objectives US program in Iran difficult or impossible. Most recent developments this connection are: (a) Tudeh demands upon Mosadeq including expulsion US mil mission and termination mil aid, (b) unconfirmed report contained Embtel 2714[2] regarding possible drastic cut Army budget, and (c) press reports he may legalize Tudeh party.

Shld these contingencies materialize, situation wld be created under which Iran forces wld be rendered incapable of maintaining order fol precipitation wide-spread internal disorders (which undoubtedly wld be fomented by Tudeh), and stage might be set for successful *coup d'etat*. Moreover, expulsion US mil missions and rejection mil aid wld have serious repercussions here and might make it virtually impossible for US to extend further aid to Iran since public and probably Congress wld interpret such move, particularly expulsion US missions, as not only anti-Amer but definitely pro-Sov.

Foregoing is, from point of view of US natl interest, most important element in complex problem of relationship with Mosadeq. Dept hopeful that, notwithstanding Mosadeq's record re AIOC, responsibility imposed upon him as PriMin will render it possible to work out some arrangement to prevent interruption in flow of oil to West. If, however, in pursuing policy of ultra-nationalism Iran security itself is thrown into considerable doubt, Dept perceives possibility that extraordinary political measures might be required in effort prevent loss of Iran to the free world.

Dept believes Shah must be fully aware grave dangers inherent this aspect of situation, but recognizes uncertainty and confusion might lead him to fail to take effective measures to forestall in time precipitous and unwise action by Mosadeq on security matters. It is possible, however, that such proposed action by Mosadeq might be seized upon by Shah as opportunity for dismissing him on grounds other than oil nationalization and install a PriMin in whom he has greater confidence.

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[1] Drafted by Rountree and cleared by the Office of the Deputy Under Secretary (G), International Security Affairs (S/ISA), and the Department of Defense. The source text bears the following typewritten notation: "*Note*: no Distribution, except to S/S and NEA."

[2] In telegram 2714 Grady reported that a "generally reliable source" had told him that Mosadeq had announced in a recent National Front conference his intention of reducing the army budget by two-thirds. (888.10/5-851)

In view extreme importance this matter, wld appear desirable that you discuss it frankly with Shah, pointing out ur approach is motivated by sincere interest US Govt in welfare Iran people and continued Iran independence under Shah's leadership which we fear might be seriously jeopardized if rash antiforeign action is taken solely to exploit present emotional nationalism. Whether or not approach shld be made at this time and precise nature of approach, of course, wld depend in large measure upon ur estimate of likelihood that any or all contingencies feared might in fact materialize.

Dept wld appreciate ur urgent comments.[3]

ACHESON

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[3] On May 12 Ambassador Grady replied as follows to this telegram:

"Dept needlessly disturbed. Shld developments indicate the Dept's fears are well-founded, I will report in full. As Mr. Hull used to say 'we are giving earnest attention to all phases of the situation.' " (Telegram 2765 from Tehran; 788.13/5-1251)

No. 21

888.2553/5-1151 Telegram

The Secretary of State to the Embassy in Iran[1]

TOP SECRET **PRIORITY** WASHINGTON, May 11, 1951—4 p.m.

2088. Brit Amb called upon Secy, Matthews, and McGhee this morning[2] and advised of proposed new Brit note to Iran Govt in response to Iranian note turning down the Brit note of May 2 invoking arbitration provisions AIOC concession agreement.[3] Amb also advised Dept of instructions to him and Shepherd in connection with note which together with note are summarized for you in separate tel.[4]

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[1] According to typewritten notations on the source text, this telegram was drafted by McGhee and cleared by Matthews; however the only initials on the source text are Rountree's. The telegram was repeated to London.

[2] No further record of Secretary Acheson's conversation with Franks has been found in Department of State files.

[3] For texts of the British note of May 2 and the Iranian note of May 8, see British Cmd. 8425, pp. 31-33, or *Documents* (R.I.I.A.) for 1951, pp. 482-485.

[4] Telegram 2087 to Tehran, May 12. (888.2553 AIOC/5-1251) The instructions to Ambassador Franks asked him to urge the Department of State to instruct Ambas-

Continued

Amb was advised that: a) US reps had taken and would continue take strong position with Iranian Govt against unilateral violation of concession contract; however, US had not been and was not able take similar position with respect nationalization as such; b) With respect to implied threat in proposed Brit note of serious consequences in event Iranian refusal to negotiate, which instruction to Amb interprets as involving possible eventual use of force, US would recognize right of Brit to evacuate Brit citizens whose lives were in danger. Open Soviet intervention in Iran or seizure of power in Tehran by Communist Govt, would, of course, also create situation where use of force must be considered. US would, however, have grave misgivings with respect to use of force in absence above conditions or, in case of danger to Brit citizens, to extension of use of force beyond evacuation. Dept noted that Brit Govt has made no firm decision in this matter and would expect Brit Govt, as they offer, to discuss matter with US Govt before any such decision is made.

In addition, fol suggestions were put forward to Brit Amb for consideration as possible modifications or supplements to proposed Brit course of action without, however, committing US Govt to such suggestions: 1) That Brit position might best be conveyed to Prim Min orally and without publicity rather than through formal note; 2) That Brit should consider advising Prim Min at same time that they are prepared to negotiate on basis of acceptance of principle of nationalization. US believes that under any other circumstances Prim Min would probably reject summarily Brit proposal to negotiate and that there would in any event be little chance of success even if discussion were held. As US told Brit Govt during recent conversations, US is unable support any substantive proposal by Brit which does not reflect principle of nationalization since we do not believe it would have a chance of success. On other hand,

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sador Grady to give the British all possible support in their dispute with Mosadeq. The instructions to Ambassador Shepherd told him to deliver the message to Mosadeq and tell the Prime Minister that the Iranian note of May 8 had created a deplorable impression in London. At the time he delivered the message to Mosadeq, Shepherd was to inquire whether Iran would be willing to enter negotiations with a mission led by a member of the British Government. The message to Mosadeq reviewed the British view of the controversy, expressed the hope that it could be solved by negotiations, reaffirmed the willingness of the British Government to send a mission to Tehran, and concluded that a refusal to negotiate or an attempt to proceed with unilateral action would gravely harm Anglo-Iranian relations and have most serious consequences. For the full text of the message to Mosadeq, delivered by Shepherd on May 19 as an *aide-mémoire*, a text which is substantially the same as that summarized in telegram 2087, see British Cmd. 8425, pp. 34–36, or *Documents* (R.I.I.A.) for 1951, pp. 486–488. Copies of the three documents summarized in this paragraph, apparently those left at the Department of State by Ambassador Franks, are in file 888.2553 AIOC/5–1251.

if Brit are willing accept principle of nationalization, US would, in addition to support against unilateral breaking of contract indicated above, be willing consider supporting general substantive position put forward by Brit, without giving support to particular details. Amb replied that, although there was no decision by his Govt to admit to principle of nationalization, the climate of thinking in London was along such lines. Brit tactics have been to initiate negotiations before making any substantive offer. Amb did, however, appear to be impressed with argument presented by Dept and promised to take matter up with his govt; 3) Dept indicated its willingness, under suitable conditions, to consider advising Iranian Govt that Amer companies would not be willing enter into agreement for operation of Anglo-Iranian properties, should Iran so desire, under any conditions in face of unilateral action by Iranian Govt. It was explained to Amb that this step could have grave political consequences in our relations with Iran and that our decision in this regard would be influenced by your judgment and by result from meeting which Dept is having with oil company reprs May 14.[5] This is, however, position which Dept has thus far consistently taken with Amer oil companies and, in view of great influence which such statement if properly made could have on Iranian Govt, entering into negotiations with Brit, US Govt would be glad consider so advising Iran Govt in some appropriate way. Dept also suggested that such action might more appropriately be taken in advance of Brit approach in order prepare Prim Min and to minimize linkage of the two actions. Amer presentation would seek to avoid implication that it flowed from any desire to keep Iran from nationalization of oil properties but from US Govt and company reactions to unilateral action by Iran in breaking concession agreement and refusing to discuss it or arbitrate.

Request you consult with Shepherd and advise Dept ur reactions with respect to: 1) Proposed Brit line of action, and 2) Suggestions made by Dept. You might suggest to Shepherd that he show you complete texts of Brit communications referred to above.

Dept is influenced in this connection by growing feeling in UK typified by recent *Economist* article that US not supporting Brit to extent possible and that part of difficulty caused by competition Amer companies. Amer companies have expressed fear that soft Amer position with respect to unilateral cancellation of concession might weaken their own positions in Middle East and elsewhere. Dept proposes if US action referred to in 3 above is taken, to advise officials of other Middle East oil producing countries in order make clear US position re unilateral violations of contracts. Dept will continue to restrain Brit from so-called "strong" methods, although it must be recognized as pointed out by Amb that Brit public opinion combined with delicate Parliamentary situation may result in Brit taking rash course of action.

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[5] For a record of this meeting, see *Foreign Relations*, 1951, vol. v, p. 309.

In ur suggestions with respect to above Dept would appreciate it if you would consider timing, i.e., whether there is chance of success of UK proposal while Mosadeq is still Prim Min; whether UK should wait until his position deteriorates; or whether they should wait for possible successor. Dept believes we should keep in mind that importance AIOC concession, particularly Abadan refinery, both from standpoint of financial and physical value to UK and indirectly to US, and prestige value to Brit, is worth considerable calculated risk on our part even to extent of jeopardizing our own position in Iran, in assisting Brit and Iranians in coming to satisfactory terms. On other hand, it is not worth risk of complete break between Iran and West or setting into motion chain of events which could lead to communist seizure of Iran Govt or Russian intervention.[6]

ACHESON

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[6] On May 13 Ambassador Grady replied that it was difficult to ascertain whether Mosadeq had any program beyond the oil legislation. The Ambassador believed the nationalization law was loose enough to allow a good agreement provided the British were willing to pay liberal lip service to nationalization. Grady cautioned that when the Iranians referred to nationalization they meant "confiscation to a greater or lesser degree." He also advised that almost every Iranian demanded "release from British domination which means especially AIOC," but was not sure how this demand could be met at that time. (Telegram 2787 from Tehran; 888.2553/5-1351)

No. 22

888.2553/5-1651 Telegram

The Ambassador in the United Kingdom (Gifford) to the Department of State[1]

TOP SECRET PRIORITY LONDON, May 16, 1951—7 p. m.

5966. Embassy becoming increasingly concerned re growing speculation here in press that UK preparing use force in Iran. Announcement that one sixth Paratroop Brigade alerted (Embtel 5940, May 15[2]) and failure of govt to deny press deductions that brigade may be used Iran has further stimulated belligerent atmosphere.

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[1] Repeated to Tehran.

[2] Not printed.

In this atmosphere, Emb fears that when new Brit *aide-mémoire* is presented Mossadeq and its contents become public, ref to "most serious consequences" will inevitably be interpreted here and abroad as intention to use force. Yet, from everything Brit tell us, no decision re use force has yet been taken. Moreover, FonOff yesterday reiterated that no such decision will be taken without further consultations with US.

Against this background we fear that Brit, having made implied threat use force, may eventually be faced with alternatives of either, against their better judgment, making good on this threat and risking unpredictable consequences or backing down and suffering resultant loss prestige and perhaps fatal weakening of their position.

It is our estimate that ultimate UK decision whether or not to use force will be in last analysis determined by extent to which US prepared support. In this connection, we have been disturbed by convs with Eastern Dept officials yesterday re talks in Wash over weekend. They seem to have impression that differences between us re use of force are not very large and can probably be overcome. They summarize differences by saying that whereas Dept willing consider possible desirability using force in event Tudeh coup, FonOff feels we shld realistically understand situation deteriorating in Iran and a door may be opened to Tudeh. We shld therefore consider possibility anticipatory use for force to forestall loss of oil fields to Tudeh if we are unable otherwise contain situation. We pointed out we felt this difference was very wide indeed and that it shld not be minimized by FonOff. We stressed Dept's grave misgivings re use of force beyond that required evacuate UK nationals unless open Sov intervention or Tudeh coup (Deptel 5208, May 12 [*11*][3]). We pointed out some of dangers inherent in anticipatory action, including probable adverse reaction on part many members UN, possibility of action serving as excuse for Russian intervention from north under 1921 treaty and possible revulsion which wld occur in other ME states. Eastern Dept officials said all these factors had been considered. While recognizing probability initial adverse UN reaction, they nevertheless felt that, over longer period, most members wld welcome forthright Brit action. Re Sovs, they seemed feel that if they desired intervene Iran, they wld do so regardless Brit action. Finally, they thought use of force wld have beneficial effect and restore UK prestige other ME countries.

While foregoing views may not represent considered view FonOff or UK Govt, we are disturbed find them so prevalent in Eastern Dept.

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[3] Printed as telegram 2088, *supra*.

There is another facet to this problem which Tehran should more properly comment on than this Emb, i.e., whether UK is not making psychological mistake in asserting that it is unwilling to negotiate with Mossadeq under duress, while saying in effect at same time that Mossadeq must negotiate with them under threat of duress. We feel that at present stage (especially when new factor has been introduced in sit by apparent UK willingness to negotiate settlement involving some form of nationalization) UK might better remove from note reference to "most serious consequences" and play down possible use of force by such means as denying that paratroop brigade being alerted for use in Iran. We suggest Dept may wish give urgent consideration to discussing above with Brit Emb.

Emb wld not want foregoing be interpreted as indicating that it does not believe that use of force may not be required at some later stage. Main point we wish to make, however, is that UK should not make or appear to make any threat of force until decision is made to carry it out in event of necessity.

Obviously, happiest way out of whole dilemma wld be success in persuading Mossadeq to negotiate and to be reasonable. For this reason, Emb considers it of utmost importance that we support UK to greatest possible degree in forthcoming UK approach.[4]

GIFFORD

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[4] On May 16 Gifford was informed that McGhee told Steel that the United States saw grave dangers in the introduction of British troops in Iran in connection with the oil dispute and therefore could not support any plan contemplating such use, or the threat of such use, of force. This position was approved by Matthews and Secretary Acheson and reaffirmed by the latter in a conversation with Ambassador Franks on May 17. (Telegram 5259 to London and memorandum by McGhee, both dated May 17; 888.2553/5-1651 and 5-1751)

No. 23

Editorial Note

On May 18 the Department of State released to the press a statement on the United States position concerning the Iranian oil situation. After noting that the United States was firm friends with both Iran and the United Kingdom, the press release stated that the United States had expressed to the British the need for greater Iranian control over its petroleum resources and that the United States had pointed out to Iran the serious effects of any unilateral cancellation of a contract. The statement further asserted that the United States oil companies would not be willing to undertake operations in Iran in the face of such unilateral action and ended

with the hope that through negotiation the interests of both Iran and the United Kingdom could be realized.

This resulted in an Iranian *aide-mémoire*, dated May 21, protesting that the United States request for negotiations was interference in Iranian internal affairs. On May 23, at his press conference, Secretary Acheson expressed surprise at the Iranian reaction to the press release and on May 26 in an *aide-mémoire* the United States expressed its regret that the statement had been construed as interference in Iranian internal affairs, reiterated its concern over the solution of the oil controversy, and repeated that a problem of this kind could be settled satisfactorily only by negotiations between the parties concerned.

For text of the press release, see Department of State *Bulletin*, May 28, 1951, page 851; *American Foreign Policy, 1950–1955: Basic Documents*, volume II (Washington, 1957), pages 2261–2262; or *Documents* (R.I.I.A.) for 1951, pages 489–490. For text of the Iranian *aide-mémoire*, see *ibid.*, pages 490–491. For text of Secretary Acheson's remarks at his press conference on May 23 and text of the United States *aide-mémoire*, see Department of State *Bulletin*, June 4, 1951, pages 891–892; the text of the United States *aide-mémoire* is also printed in *American Foreign Policy, 1950–1955, Basic Documents*, volume II, page 2263, and *Documents* (R.I.I.A.) for 1951, pages 491–492.

No. 24

888.2553/5-3151

Memorandum of Conversation, by the Second Secretary of the Embassy in Iran (Stutesman)[1]

SECRET TEHRAN, May 31, 1951.

Participants: Prime Minister Mohammad Mosadeq
British Ambassador Sir Francis Shepherd
United States Ambassador Henry F. Grady
John H. Stutesman, Second Secretary, U.S. Embassy

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[1] Transmitted as an enclosure to despatch 1022 from Tehran, May 31. (888.2553/5-3151) In the despatch Richards, writing for Ambassador Grady, characterized the conversation as follows:

"The results were most disappointing since the Prime Minister proved completely adamant in his attitude that the British must accept completely a strict interpretation of the existing nationalization law and that any discussions could only be pursued within the framework of that law. The British Ambassador, on his side, appeared more concerned with the legal aspects of the British case than a flexible intent to achieve some agreeable interpretation of the nationalization law."

A telegraphic summary of this conversation was transmitted in telegram 3042 from Tehran, May 30. (888.2553 AIOC/5-3051)

At 1:15 p. m., May 29, 1951, the above listed persons came together at the residence of the U.S. Ambassador. The conversation turned immediately to the question of the nationalization of the oil industry. The Prime Minister said that he looked to the American Ambassador to act as intermediary in bringing together the Iranians and the British on the oil question. The Prime Minister continued to say that there were three points upon which discussions could be held:

1. Establishment of an organization to assure continued production and sales of oil.
2. Decisions regarding the claims of the ex-AIOC for compensation.
3. Developments of procedures whereby foreign governments can contract with the Iranian Government to buy definite percentages of the total oil production of Iran.

Dr. Grady proposed to the British Ambassador that it might be appropriate to indicate to the Prime Minister that the AIOC was considering sending some top men, possibly Directors, to carry on discussions with the Iranians. The British Ambassador took the position that such a statement would be premature at this time since Mr. Seddon was representing the Company on May 30th in an interview with the Minister of Finance. He felt that it was more appropriate to await a report from Mr. Seddon on the results of this interview, at which time the Company would take its own decisions for future moves.

Sir Francis indicated, however, that it might be possible for a British Government Mission to come to Tehran to open discussions on the basis of two rather broad formulas: (1) to discuss Anglo-Iranian relations with regard to production and distribution of oil; (2) to discuss practical arrangements for the future of the oil industry in Iran.

The conversation was halted at this point by the announcement of lunch, and conversation turned to mild banalities during the meal. After coffee, the conversation was reopened at the point where the British Ambassador was proposing that a British Government Mission open discussions on the basis of the first formula described above.

The Prime Minister completely rejected this opportunity to commence discussions with the British Government, repeating over and over again emotional and generally irrelevant references to the misery and poverty of his country, and indicating clearly that he would invite a British Government Mission only on his own terms and within a strict literal interpretation of the existing nationalization law.

The British Ambassador pointed out carefully that the whole basis for discussion should be to settle the conflicting views between the sovereign British nation and the sovereign Iranian nation over the oil industry. He repeated Mr. Morrison's statement that the British could not stand aside with folded arms while the Iranians pursued a course leading to inevitable disaster. Both Ambassadors attempted to persuade the Prime Minister that an oil industry is a most complicated affair, involving not only pumping of oil from the ground, but refining, distribution and sales. The Prime Minister replied, "Are the British supernatural that only they can accomplish this", and obstinately refused to accept the fact that the oil industry could not succeed if the intricate organization presently established were completely destroyed. "Tant pis pour nous. Too bad for us. If the industry collapses and no money comes and disorder and communism follow, it will be your fault entirely".

The two Ambassadors again attempted to persuade the Prime Minister to receive a British Government Mission to open discussions on the oil question. His position was adamant that the Mission would be invited only after specific questions which they wished to raise had been studied by himself and found acceptable under the terms of the existing nationalization law.

The Prime Minister took his leave, saying that he continued to look to the United States Ambassador as a mediator in the dispute, to which Dr. Grady replied that he would always be pleased to assist in bringing the British and Iranians to some agreement.

No. 25

888.2553/5-3151

President Truman to Prime Minister Attlee[1]

SECRET WASHINGTON, May 31, 1951.

I express to you the serious concern of the Government of the United States, which I am sure you share, at the present situation

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[1] On May 30 Assistant Secretary McGhee transmitted to Secretary Acheson, under a covering memorandum, a draft message from President Truman to Prime Minister Attlee and a memorandum for the President reviewing the Iranian situation. McGhee explained that a personal message to Attlee along the lines of the draft would "be of great value in persuading the British to pursue a course of action which we feel has a good chance for success." In the covering memorandum, drafted by Rountree, McGhee noted that the draft message was cleared by Matthews, S/P, and BNA and advanced arguments similar to those in the memorandum for the President concerning the efficacy of sending the message to Attlee. According to Battle's handwritten notation on another copy of the covering memorandum, the

Continued

in Iran. I realize the great importance to Great Britain of a satisfactory solution to the controversy with the Iranian Government concerning operations of the Anglo-Iranian Oil Company.

I am also acutely aware that it is essential to maintain the independence of Iran and the flow of Iranian oil into the economy of the free world.

Recent information which has reached me has led me to believe that the Iranian Government is willing and even anxious to work out an arrangement with His Majesty's Government which would safeguard basic British interests and which could satisfy the desires of the Iranian people for nationalization of their petroleum resources.

The United States Government has expressed to His Majesty's Government in recent days its firm conviction that an opportunity is now presented by the Iranian Government for negotiations which should be entered into at once. We earnestly hope that His Majesty's Government can despatch to Tehran without delay qualified negotiators possessed of full powers to reach a settlement with the Government of Iran, and who are prepared to put forward in an appropriate way a specific proposal consistent with the principle of nationalization, acceptance of which was indicated by Mr. Morrison in his remarks on May 29 before the House of Commons.[2] I understand that, while the Iranian Government's invitation for representatives to negotiate[3] was addressed to the Anglo-Iranian Oil Company, the Iranian Government has indicated that it would have no objections if such company negotiators were also officials of His Majesty's Government.

I know that you are fully aware of the serious implications of this explosive situation. I am sure you can understand my deep

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"memo and enclosure telegraphed to Pres on Wed evening. Reply (with changes in the message) sent to us following morning [May 31]." The revised message to Attlee, printed here, which is the same as the May 30 draft except for minor changes, was transmitted to London in telegram 5565 (signed by Acheson and repeated to Tehran) at 10 a. m., May 31, and delivered to 10 Downing Street on the evening of May 31. (Telegram 6296 from London, May 31; 888.2553 AIOC/5-1351) Copies of the covering memorandum with the attached draft telegram and memorandum for the President and with Battle's handwritten notation are in files 888.2553 AIOC/5-3051 and 788.00/5-3051, respectively.

[2] For text of Morrison's statement, see *Parliamentary Debates*, House of Commons, 5th series, vol. 488, cols. 40-42.

[3] On May 20 and 24, Ali Varasteh, Iranian Minister of Finance, addressed letters to Seddon asking that the AIOC nominate representatives for discussions on the implementation of the oil nationalization law. On May 27, Seddon transmitted a reply from Fraser to Varasteh, stating that the company could not accept the Iranian view of the oil dispute, that it was asking the International Court of Justice to appoint an arbitrator, and that Seddon would meet with Iranian officials but only to listen to what they had to say and report it to the AIOC in London. For the texts of these three messages, see British Cmd. 8425, pp. 36-38.

concern that no action should be taken in connection with this dispute which would result in disagreement between Iran and the free world. I am confident that a solution acceptable both to Great Britain and Iran can be found. I sincerely hope that every effort will be made to accomplish this objective.

No. 26

888.2553 AIOC/6-151

President Truman to Prime Minister Mosadeq[1]

SECRET WASHINGTON, June 1, 1951.

I express to you the serious concern of the Govt of the US at the controversy between Iran and Grt Brit concerning operations of the Anglo-Iranian Oil Co. The US is a close friend of both countries. It is anxious that a solution be found which will satisfy the desires of the Iranian people for nationalization of their petroleum resources, and at the same time will safeguard basic British interests and assure the continued flow of Iranian oil into the economy of the free world.

I am convinced that both the Iranian and British Governments are willing and anxious to work out arrangements which will achieve these objectives. It is clear that they can be achieved only if the Iranian Government is willing to discuss with representatives of Great Britain all of the outstanding issues, without confining their talks merely to technical details. I earnestly hope that the Iranian Government will, in its efforts to carry out its nationalization program, do so by friendly negotiation.

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[1] On June 1 Ambassador Grady reported that due to a mistake at the Embassy in Tehran, the message to Attlee (*supra*) had been delivered to Prime Minister Mosadeq at 11:30 that morning. (Telegram 3084 from Tehran; 888.2553/6-151) As soon as this became known the Department of State and the Embassy in London expressed to the British their sincere regrets at the error, and the Department of State undertook the drafting of a substitute message from President Truman to Prime Minister Mosadeq.

The text of the substitute, printed here, was transmitted to Tehran at 7 p. m. on June 1 in telegram 2267 with the instruction that Ambassador Grady ask Mosadeq to substitute it for the message to Attlee and retain the latter for his private information only. A copy of the substitute message was also sent to London for delivery to the British. Ambassador Grady decided that it would be unwise to attempt to withdraw the Attlee message since Mosadeq had already released it to the press, and on June 3 he delivered the substitute. Mosadeq expressed his appreciation for the impartiality of the United States in sending both sides essentially the same plea to open negotiations and released the text of the second message to the press. (Telegrams 3100 and 3109 from Tehran, both dated June 4; 888.2553 AIOC/6-451) Further documentation on the delivery of the messages, the regrets expressed to the British, the drafting of the substitute note, and its delivery to Mosadeq is in files 888.2553/6-151 through 6-451 and 888.2553 AIOC/6-151 through 6-451.

I am sure you can understand my deep concern that in this situation no action be taken impeding a settlement, which is of great importance to the whole free world. I am confident that a solution acceptable both to Iran and Great Britain can and will be found. I sincerely hope that every effort will be made to accomplish this objective.[2]

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[2] Mosadeq responded on June 11, thanking President Truman for his interest and concern, but pointing out that the negotiations over nationalization were the exclusive responsibility of the Iranian Government and the AIOC, not the British Government. (888.2553 AIOC/6-1151)

No. 27

888.2553/6-651

Prime Minister Attlee to President Truman[1]

SECRET [LONDON, June 5, 1951.]

Thank you for your message of 31 May, conveyed to me through the United States Ambassador in London, on the Persian oil situation.[2] I was glad to receive this further confirmation that the United States Government shares the concern of His Majesty's Government at the present situation in Persia, and recognizes the great importance to this country of reaching a satisfactory solution between the Persian Government and the Anglo-Iranian Oil Company. The information which has so far come to us does not entirely bear out your belief that "the present Persian Government are willing and even anxious to work out an arrangement with His Majesty's Government which would safeguard basic British interests and which could satisfy the desire of the Iranian people for nationalisation of their petroleum resources". On the contrary, the Persian Prime Minister and leading Persian officials, both in public statements and in unofficial conversations with His Majesty's Ambassador, have so far maintained the view that they are only prepared to discuss the implementation of the Persian nationalisation laws, and then solely with the company. These laws, though they are in fact little more than a series of loosely-drafted resolutions, appear to involve unilateral cancellation of the company's 1933 concession-agreement, and the taking over by the Persian Government of the whole oil industry of southern Persia. As you,

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[1] Transmitted in telegram 6371 from London, June 5. (888.2553/6-551) Attached to a covering memorandum from McGhee to Acheson, dated June 6, recommending that the message be forwarded to President Truman. (888.2553/6-151)

[2] Document 25.

Mr. President, will recognize, this could result only in grave harm to the Persian oil industry with the most serious repercussions on the whole free world. The effect on the economy of the United Kingdom would be most serious and might well affect our rearmament plans. Furthermore, a breach of contract of this nature might well jeopardize other overseas contracts, not merely those held by British and United States companies for the development of Middle East oil resources, but contracts for other products elsewhere. Finally, if Persia were to drift into economic chaos as a result of an interruption of her revenue from oil, only the Communists would benefit. His Majesty's Government cannot, therefore, admit such a solution.

On the other hand, the *aide-mémoire* given to the company's manager in Tehran on May 30[3] by the Persian Finance Minister does seem to suggest a possibility that the Persian authorities might be prepared at least to listen to what the company has to say. Accordingly the company, with our full agreement, whilst of course reserving its full legal position, has proposed in replying to this *aide-mémoire* to send out a mission to Tehran as soon as possible to discuss the matter fully and frankly with the Persians.[4] He shall of course keep in closest touch with these discussions. It is our earnest hope that it may be possible for the mission to convince the Persians of the practical impossibility of the measures which they apparently envisage and of the consequent necessity, if the future of the industry is to be assured and the economy of Persia saved from serious deterioration, of finding a solution which will enable the company to cooperate fully in the development of Persia. His Majesty's Government will keep in close touch with these discussions, and would at all times be prepared to consider any further steps which might seem necessary to promote a just and reasonable solution. I am sure that we can count on the United States Government to exercise their influence to this end whenever it may be necessary.

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[3] For text of this message, see British Cmd. 8425, pp. 39–41 or *Documents* (R.I.I.A.) for 1951, pp. 492–494.

[4] On June 3 Seddon replied to the Iranian note of May 30 saying that the AIOC would send representatives to Tehran as soon as possible to hold full and frank discussions with the Iranians. For text of Seddon's note, see British Cmd. 8425, p. 41.

No. 28

888.2553 AIOC/6-1451: Telegram

The Ambassador in Iran (Grady) to the Department of State[1]

SECRET PRIORITY TEHRAN, June 14, 1951—2 p. m.

3283. Embtel 3266 June 14.[2] In view recent developments I called on Pri Min 11 a. m. this morning at his home. He looked very ill and said that doctors had insisted he leave Parliament bldg and remain home several days and that last night he had been given a blood transfusion. He was weaker than I have seen him before, altho during conversation he became spirited as ever.

I explained that I had hoped and had even been optimistic in the past that the Iranians were sincerely desirous conduct discussions with oil company delegates within principle nationalization and that I have been under distinct impression and, in fact, was informed by Senator Shafaq that Iranians would refrain from action implementing Nationalization Law until discussion with Brit had opened. I referred with concern to developments Abadan and made a personal plea to Pri Min that he hold off such action.[3] Pri Min replied that this afternoon five govt delegates Tehran wld propose to oil company delegates that all oil revenues be immed assigned over Iranian Govt and bank be designated receive 25 percent against future company claims after costs production deducted. If company delegates do not accept this proposition, there would seem to be no basis for further discussions.

I pointed out danger this course action and impossibility having proper atmosphere sincere discussions with Brit if such ultima made. Pri Min said he had accepted Premiership on condition Parliament pass Nationalization Law and that since that time he had only one duty—implementation law. He said "I never contemplated discussions with Brit except within framework law."

I again pointed out that I am acting as informal mediator in dispute and do not speak for Brit side and the US interest is only to help Iran avoid disaster which wld fol any unilateral action to dissolve oil company and again begged him reconsider present course.

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[1] Repeated to London.

[2] Telegram 3266 reported that the first meeting between the AIOC representatives and Iranian officials was scheduled for that afternoon and that usually well-informed press sources were saying that the AIOC Delegation would be asked if it recognized the principle of nationalization and the 9-Point Law. Only if the delegation replied affirmatively would the conversations proceed. (888.2553 AIOC/6-1451)

[3] On June 11 the Iranian Provisional Board of Directors visited Abadan and Khorramshahr, and called upon the AIOC to deposit 25 percent of the oil revenues in a bank against future claims, give the other 75 percent to the Board, and regard all oil workers as employees of the National Iranian Oil Company.

action, halt provocative acts govt reps Abadan and attempt enter discussions with Brit in friendly atmosphere seeking agreement within framework principle nationalization. He complained that statements made by Brit Amb to press contained threats[4] and did not add to atmosphere of amity for discussions. I am hopeful that my strong but friendly statements may have some favorable effect on manner in which Iranian delegation handles today's meeting. I have just seen Jackson and given him report on my conversation with Mosadeq.[5]

GRADY

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[4] At the end of telegram 3266, Grady indicated that Shepherd's "tough attitude" and his criticism of Mosadeq were not helpful and that the British Ambassador "indicates, if he does not actually say so, that no settlement can be made with Mosadeq Gov and any change wld be for the better."

[5] Jackson paid a courtesy call on Grady on June 12 and saw Mosadeq briefly on the following day. The British Embassy told the U.S. Embassy that the meeting with the Prime Minister was not unfriendly but that Mosadeq did most of the talking, reiterating the Iranian view which followed closely the position taken in his message to President Truman. (Telegrams 3247 and 3255 from Tehran, June 13; 888.2553 AIOC/6-1351)

No. 29

Editorial Note

On June 11 and 12 the British Delegation, composed of Basil Jackson, Vice Chairman of the AIOC Board of Directors; N.R. Seddon, AIOC Chief Representative in Tehran; AIOC Directors Elkington and Gass; and the British Government representative on the AIOC Board of Directors, Gardiner, arrived in Tehran. The first meeting with the Iranian Delegation, composed of Minister of Finance Varesteh, Minister of Education Sanjabi, Minister of Posts and Telegraphs Moshar, Majlis Deputy Shayegan, and Under Secretary of the Finance Ministry Hassibi, took place on June 14. The Iranian Delegation immediately informed the British that further negotiations were conditional upon the issuance of instructions by the AIOC for the deposit of 25 percent of the oil revenues as a guarantee against future claims and for the remittance of the remaining oil revenues, less costs and the 25 percent, to the Iranian Government.

The British Delegation asked for time to consider this demand and the second meeting on June 17 was confined to technical matters. At the third meeting 2 days later Jackson put forward a proposal that, *inter alia*, recognized the Iranian nationalization law, offered Iran a 10-million-pound advance on oil revenues, promised a monthly payment of 3 million pounds, and provided for the vestment of Iranian assets of the AIOC in a new Iranian National Oil Company, but which did not accept either the remittance of the oil revenues or the 25 percent deposit. The Iranian Delegation considered this proposal for only 30 minutes before rejecting it because it did not comply with the "9-Point Law." For the full text of Jackson's proposal, see British Cmd. 8425, page 42.

Following receipt of the Iranian desiderata at the first meeting, the Department of State cabled London and Tehran stating that it considered "this position not only completely unreasonable but designed to remove all hope negots with Brit except on terms complete capitulation to Iran nationalization demands" and urging Ambassador Grady to see the Shah and point out the "grave dangers this attitude entails and request him to use his personal influence to have this position modified." (Telegram 2393, June 14; 888.2553 AIOC/6-1451) On June 16 Grady reported that he would urge the Iranians not to be adamant about the demands which they had made at the first meeting, but on June 18 he cabled that Mosadeq still was thinking in terms of the British turning everything over to Iran. (Telegrams 3302 and 3318 from Tehran; 888.2553 AIOC/6-1651 and 888.2553/6-1851) The Department of State on June 19 again instructed Grady to call on the Shah and request him to use his influence to assure that the door to an agreement was not closed by the reckless action of Mosadeq's government. In this same telegram, repeated to London, Gifford was instructed to convey to the Foreign Office the Department of State's view that the British Delegation should not leave Tehran. (Telegram 2403 to Tehran; 888.2553 AIOC/6-1951) On the following day Secretary Acheson at his press conference expressed the hope that Mosadeq would reconsider the Iranian rejection of the British proposal.

The appeals of the Department of State apparently had no effect since the Iranian Delegation refused to reconsider the British offer, and the AIOC Delegation left Tehran for London on June 21.

No. 30

888.2553/6-2251: Telegram

The Secretary of State to the Embassy in the United Kingdom[1]

TOP SECRET
PRIORITY NIACT

WASHINGTON, June 22, 1951—noon.

6049. For Holmes.[2] Request you seek opportunity soonest discuss Iran situation on secret basis with Morrison. Fol is suggested outline for oral review of recent developments. Its tone is designed to avoid unnecessary irritation to Brit at time of serious crisis to them.

1) Brit offer in Dept's opinion was excellent and cld provide good basis to Iran for negot satis agreement. We were deeply disappointed that Iran rejected offer and terminated negots in manner which indicates no desire to solve problem on any reasonable basis.

Decisions of Brit Cabinet on June 20 with respect to Iran, of which we have seen summary, appear to reflect a rational approach to the problem.[3] The difficulty with which we are confronted, however, is that a rational situation does not prevail in Iran at the moment.

2) While there obviously is little hope that an acceptable solution can be reached under present circumstances in Iran, Dept does not believe that this situation will prevail indefinitely and it is earnestly hoped that developments there soon will bring about an atmosphere in which better opportunity for negot is afforded.

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[1] Drafted by Rountree, McGhee, and Ferguson (GTI); cleared by Perkins, Matthews, and Nitze, and signed by Secretary Acheson.

[2] Ambassador Gifford was in Washington for consultations until June 25 when he returned to London. During his absence Holmes was Chargé.

[3] According to an undated study prepared in the Department of State, entitled *Account of the Iranian Oil Controversy*, the British Embassy in Washington on June 21 gave the Department of State a copy of a summary of the British Cabinet decisions which were taken after consulting with the AIOC Delegation. Among the decisions summarized were the evacuation of dependents from the oil fields and Abadan, the use of force if necessary, the provision of military cover for the evacuation of British personnel, and the decision to allow the onus for the suspension of oil operations to fall on the Iranians. No copy of the summary has been found in Department of State files.

The *Account of the Iranian Oil Controversy* consists of three volumes. The first volume of this top secret study was prepared by Foreign Service Officer Oliver S. Crosby on assignment to the Office of Greek, Turkish, and Iranian Affairs. It consists of a 179-page narrative history covering the years 1949-1952, a chronology, and three documentary appendixes. The citations in the text indicate that Crosby utilized files of the Department of State, and there are also frequent references to military attaché messages. Volumes II and III were prepared by Helen P. Gray of the Office of Greek, Turkish, and Iranian Affairs, and cover the periods 1952-1953 and 1953-1954 respectively. All citations to the study in this compilation are to volume I. A copy of the study is in file 888.2553/7-1452.

3) Pending such a time the dangers of the situation in Iran are obvious. A complete breakdown of oil operations with its econ consequences including unemployment among thousands oil workers cld bring about immed threat to internal security and particularly to installations themselves. Shld this be precipitated by withdrawal Brit technicians and refusal to ship oil, blame undoubtedly wld be placed upon UK with possibility that, even if Iran saved from collapse, chances for successful negot with Brit firm in future wld be gravely diminished.

4) Although we are giving matter serious thought we are not prepared at this time to suggest long-range solution to dilemma. We do believe, however, that at least for time being it wld be highly advisable to find some way of maintaining oil production, refining and movement by tanker if this can be done without seriously endangering lives of Brit and other forn technicians in Iran. We are sure Brit will agree that keeping way open for negot wld be worth paying a rather high price. This shld be facilitated by leaving the present offer open and retaining in Iran at least one high-level negotiator.

5) We fully recognize great problem with which Brit Gov is confronted in Iran, and wish to do whatever we can to help them meet it. We, of course, do not have any clear idea of how Brit Gov thinks the AIOC may be extricated from its present situation. It wld be very helpful to us to know more of Brit thinking on how situation may be solved. If the Brit Gov wld like we are prepared immed to send a senior official to London to discuss complex issues involved or, if Brit wld prefer, we will outline our views in writing. In any event, however, because of our great mutual interest in a solution to this problem we hope that nothing precipitate will be done at this time which wld make a negotiated settlement impossible.

6) Dept does not wish offer gratuitous advice in matter of vital importance to Brit nor to give impression we are pressing for appeasement completely unjustified Iran conduct. It is hoped that future course can, however, be set after consultation between our two govts in view of far-reaching implications of any action which is taken.

ACHESON

No. 31

888.2553/6-2651 Telegram

The Ambassador in the United Kingdom (Gifford) to the Department of State

TOP SECRET NIACT LONDON, June 26, 1951—6 p. m.

6827. Further to Embtel 6785 June 25,[1] I had a long conversation this morning with Morrison on Iran sitn. I informed him of our concern about sitn and of our desire to do what we can to help UK meet it. I told him that we had no specific suggestions to put forward at this time, but that we were anxious to get an indication of how Brit are thinking. I expressed our concern at possibility Iran collapse in event technicians withdrawn and oil exports cease and attempted to draw Morrison out with respect UK's ideas re possibility productive negots in future.

Morrison expressed appreciation for our desire to be of assistance. He said quite frankly that he had been somewhat disappointed in US attitude in past. He knew that we had tried very hard to be helpful and we had been in many ways, but he was disappointed that we had not been able to go further in supporting UK position publicly in face unjustifiable Iran attitude. He mentioned personal msg which he had sent to Secy thru Brit Emb Wash and which was delivered by Steel.[2] He was grateful for Secy's indication of his desire to be helpful, but he understood that meanwhile Dept had recd msg from Grady indicating that he did not believe that there was anything that we cld do to retrieve sitn.[3]

Morrison then went on to emphasize great patience and forbearance which UK has observed. He referred to US attitude toward use of force and again indicated that govt does not intend to use it for purposes other than evacuation personnel in event necessity. He spoke of frustration current sitn has engendered in govt circles here in trying to deal reasonably with a govt which is willing to bring about the destruction of its country. The fear of violence is all prevailing in Iran and probably Shah himself is even afraid for his life if he attempts to stem current course of events. Proposed anti-sabotage law is further evidence of Iran willingness resort to intimidation and he was most apprehensive re effect this law will have on willingness of staff to remain.[4] Whole sitn in Abadan and oil fields is fraught with danger. In face extreme provocation by Irans, he was hesitant to tell technicians they wld have to stay when it appears that it will be at peril their lives. He emphasized danger of mob violence, admitting that aside from one or two isolated instances this had not materialized as yet. However, all Brit personnel in Iran at present time living on edge of violence. He referred to necessity for Drake leaving country (Embtel 6803 June 25[5]) because of sitn in which he found himself. Perhaps Drake wld yet return, he did not know, but incident emphasizes fact that none of personnel in area can feel secure in view growing number of steps being taken against them by Iran Govt. Irans do not seem to realize what consequence their actions will be. Operation and even shutting down of refineries is extremely delicate operation and if Irans persist in interfering, there is always attendant danger of explosions with peril to both Brit and Iran personnel.

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[1] In telegram 6785 Gifford reported that Morrison was unable to see him until June 26. (888.2553/6-2551)

[2] Not further identified.

[3] On June 25 Grady cabled that there was nothing the United States could do to persuade the Iranians to change their present course. The United States had made every effort but it "was of no avail." (Telegram 3436 from Tehran; 888.2553 AIOC/6-2251)

Morrison went on to emphasize difficult Parliamentary sitn which he faces on this question. Tories are consistently pressing him to use force and it was sometimes tempting to tell Mossadeq that "either he stops or we'll come after him." Such a course wld be effective way of dealing with sitn, but present govt realizes it can't resort to this course of action for purposes other than evacuation.

It was apparent from what Morrison had to say that Brit have no long range plans as to how matter may be settled. Morrison expressed view that Shah shld dismiss Mossadeq and dissolve Majlis, but felt that Shah has not courage to do so. Shepherd has talked to Shah on several occasions, but Shah either unwilling or unable to intervene effectively in present sitn. Morrison felt Shah lacked courage to do so. If he did, Brit estimate is that army wld [support him?] fully, altho Morrison observed there may be some Tudeh influence in lower ranks.

Morrison saw no prospect for productive negots with present govt. UK had attempted explore every avenue. It had accepted principle of nationalization and had put forward fair and reasonable proposals. But every time, Irans fell back on letter of nationalization law and made it plain that UK must accept it.

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[4] The antisabotage bill, presented to the Majlis on June 21, provided that any person engaging "treacherously or with ill-intent in activities in connexion with the operation of Persia's oil industry . . . shall be condemned to penalties ranging from temporary imprisonment with hard labour to execution." For the full text of the law, see *Documents* (R.I.I.A.) for 1951, pp. 495–496.

[5] Telegram 6803 reported that Eric Drake, AIOC Manager at Abadan, had been flown to Basra, Iraq, after being accused of sabotage. Alick Mason, an AIOC representative at Abadan took his place. (888.2553 AIOC/6-2551)

75–25 demand impossible of acceptance.

Morrison asked me if US had any naval forces in area. When I told him that we had small naval force in Persian Gulf, he said he wished they wld show flag to Irans more often and expressed hope we might show willingness protect American tankers. He did not develop this idea further, nor did he indicate that he expected any answer.

In concluding, Morrison said he cld not see any way of keeping oil flowing unless Irans changed their mind and take more reasonable attitude. This wld be great pity, since oil is badly needed. He was moreover, very much disturbed about effect Iran sitn on other concessions in NE.

I shld like correct impression in Embtel 6785 June 25. Statement which necessitated Morrison's presence in Commons yesterday was on Malik's Korean peace proposal[6] not Iran.

Morrison did not raise question Eximbank loan, nor did I. However lower levels in FonOff have informally asked us what position is since despatch Embtel 6785 and we are therefore still anxious to know results further consideration this question (Deptel 6097 June 25[7]). We think this loan matter of great importance in spite of fact Morrison did not mention it.

GIFFORD

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[6] Regarding Malik's Korean peace proposal, given in a radio braodcast on June 23, see the editorial note, *Foreign Relations*, 1951, vol. VII, Part 1, p. 546.

[7] In telegram 6097 Gifford was informed that the question of the Export-Import Bank loan was currently under discussion and that no definite policy could be conveyed to Morrison at that time. (888.2553/6-2551)

No. 32

S/P–NSC files, lot 62 D 1, NSC 107 Series

Statement of Policy Proposed by the National Security Council[1]

TOP SECRET
NSC 107/2

[WASHINGTON, June 27, 1951.]

IRAN

1. It is of critical importance to the United States that Iran remain an independent and sovereign nation firmly aligned with

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[1] Attached to the source text were a cover sheet and a note, dated June 27, by Acting Executive Secretary Gleason stating that the statement of policy had been adopted by the Council at its 95th meeting on June 27 and was being submitted to

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the free world. Because of its key strategic position, its petroleum resources, its vulnerability to intervention or armed attack by the USSR, and its vulnerability to political subversion, Iran must be regarded as a continuing objective of Soviet expansion. The loss of Iran by default or by Soviet intervention would:

a. Threaten the security of the entire Middle Eastern area and also Pakistan and India.

b. Deny the free world access to Iranian oil and threaten the loss of Middle Eastern oil. These developments would seriously affect Western economic and military interests in peace or in war in view of the great dependence of Western Europe on Iranian oil, particularly the refinery at Abadan.

c. Increase the Soviet Union's capability of threatening important United States–United Kingdom lines of communication.

d. Damage United States prestige in nearby countries and, with the exception of Turkey, seriously weaken if not destroy their will to resist.

e. Be one in a series of military, political, and economic developments, the consequences of which would seriously endanger the security interests of the United States.[2]

President Truman for approval. The statement of policy, the cover sheet, and the note by Gleason were circulated as NSC 107/2.

The statement of policy in NSC 107/2 is a revision of the draft statement in NSC 107/1, dated June 6, prepared by the NSC Staff pursuant to NSC Action No. 454-f, which called for the review of NSC 107 (see Document 7) no later than July 1. The NSC Staff also prepared a Staff Study that was circulated to the Council as an annex to NSC 107/1, dated June 20. Copies of NSC 107/1 and the annex to NSC 107/1 are in S/P-NSC files, lot 62 D 1, NSC 107 Series.

On June 21 the Executive Secretary of the NSC, at the request of the Secretary of Defense, circulated to the Council a memorandum by the JCS to the Secretary of Defense, dated June 19, in which the JCS requested revisions to NSC 107/1. The Executive Secretary on June 21 also circulated to the Council the revisions to NSC 107/1 recommended by the NSC Senior Staff after it had reviewed the revisions recommended by the JCS. These revisions are indicated in footnotes below.

At its 95th meeting on June 27, with President Truman presiding, the NSC discussed the situation in Iran and adopted the statement of policy contained in NSC 107/1, subject to the revisions recommended by the Senior NSC Staff except for the proposed new paragraph numbered 8, an amendment to paragraph 2-a, and a new paragraph offered by the Secretary of State at the meeting. The NSC agreed with the suggestion of the Secretary of Defense at the meeting, that, if the statement of policy in NSC 107/1 as adopted by the Council were approved by the President, it should be kept under continuing review. (NSC Action No. 500)

On June 28, the Executive Secretary of the NSC informed the Council that the President had that day approved the statement of policy contained in NSC 107/2 and had directed its implementation by all appropriate executive departments and agencies of the U.S. Government under the coordination of the Secretary of State. (Memorandum by Lay, June 28; S/P-NSC files, lot 62 D 1, NSC 107 Series)

[2] In NSC 107/1 this paragraph is lettered "f" and another paragraph lettered "e" reads as follows:

"e. Create doubts in the free world as to the willingness of the United States to help them remain free."

The Joint Chiefs of Staff and the NSC Senior Staff recommended the deletion of paragraph 1-e of NSC 107/1.

For these reasons the United States should continue its basic policy of taking all feasible steps to make sure that Iran does not fall victim to communist control.

2. The immediate situation in Iran is such that, if not remedied, the loss of Iran to the free world is a distinct possibility through an internal communist uprising, possibly growing out of the present indigenous fanaticism or through communist capture of the nationalist movement. It is important that there be a government in power in Iran on the side of the free world, capable of maintaining internal order and determined to resist Soviet aggression. The United States should therefore:

a. Continue to extend political support, primarily to the Shah as the only present[3] source of continuity of leadership, and where consistent with Iran's ability to absorb it, accelerate and expand military, economic and technical assistance by the United States Government whenever such assistance will help[4] to (1) restore stability and increase internal security, (2) strengthen the leadership of the Shah and through him the central government, (3) demonstrate to the Iranian people the intention of the United States to assist in preserving Iranian independence, and (4) strengthen the ability and desire of the Iranian people to resist communist subversion and pressure. The United States should, unless it would be detrimental to United States policy in a particular instance, coordinate these programs closely with the United Kingdom and solicit British support and assistance for them.[5]

b. Bring its influence to bear in an effort to effect an early settlement of the oil controversy between Iran and the United Kingdom, making clear both our recognition of the rights of sovereign states to control their natural resources and the importance we attach to international contractual relationships.

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[3] The word "present" was not in the text of NSC 107/1. The Joint Chiefs of Staff recommended that the words "at present" be inserted after the words "political support," in the first line of paragraph 2-a and that the words "as the only source of continuity of leadership" be deleted from the second line. The NSC Senior Staff recommended instead that the word "present" be inserted between "only" and "source".

[4] At its meeting on June 27 the National Security Council substituted the words "whenever such assistance will help" for the words "in order," which had appeared in NSC 107/1.

[5] The final sentence of paragraph 2-a in NSC 107/1 reads:

"The United States should, unless it would be detrimental to United States policy in a particular instance, coordinate these programs closely with the United Kingdom and actively solicit British support and assistance."

The Joint Chiefs of Staff recommended that the words "and actively solicit British support and assistance" be deleted from the final sentence of paragraph 2-a. The NSC Senior Staff recommended instead that the word "actively" be deleted and the words "for them" be added at the end of the sentence. The JCS also recommended that "throughout the duration of the present uncertainties of the situation in Iran the implementation of the policies set forth in subparagraph 2-a of NSC 107/1 be kept under continuing review by the National Security Council."

c. Continue . . . to assist in aligning the Iranian Government with the free world and promoting internal security in Iran.

d. Encourage whenever opportune the adoption by the Iranian Government of necessary financial, judicial and administrative reforms.

e. Encourage the Government of Turkey and other governments whose influence might be effective to adopt a more active general policy in Iran with a view to acting as a moderating influence and to creating closer ties between Iran and stronger free nations of the area.

3. Although assurances have been received, the United States should continue to urge the United Kingdom to avoid the use of military force in settling the oil controversy. The entry of British troops into Iran without the consent of the Iranian Government would place British forces in opposition to the military forces of Iran, might[6] split the free world, would produce a chaotic situation in Iran, and might cause the Iranian Government to turn to the Soviet Union for help. However, should the lives of British subjects in Iran be placed in immediate jeopardy by mob violence, the United States would not oppose the entry of British forces into the danger area for the sole purpose of evacuating British nationals on the clear understanding that this would be undertaken only as a last resort and that the British forces so introduced would be withdrawn immediately after the evacuation was completed. In the event of a British decision to use force against the advice of the United States, the situation would be so critical that the position of the United States would have to be determined in the light of the world situation at the time.

4. Because of United States commitments in other areas, the current understanding with the United Kingdom that it is responsible for the initiative in military support of Iran in the event of communist aggression should be continued but should be kept under review in light of the importance of Middle Eastern oil, the situation in Iran, British capabilities,[7] increasing United States influence in the Middle East, and increasing United States strength.

5. The United States should be prepared in conjunction with the United Kingdom to counter possible communist subversion in Iran and, in event of either an attempted or an actual communist sei-

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[6] In NSC 107/1 the word "would" appeared at this point in the text instead of the word "might." The Joint Chiefs of Staff recommended that the word "would" be changed to "might" and the words "tend to" be inserted between "would" and "produce" in "would produce a chaotic situation in Iran". The NSC Senior Staff recommended that the word "might" be substituted for "would".

[7] In NSC 107/1 the last part of this sentence following the word "capabilities" reads "and increasing United States strength." Both the Joint Chiefs of Staff and the NSC Senior Staff recommended that the phrase "increasing United States influence in the Middle East," be inserted in the sentence after the word "capabilities".

zure of power in one or more of the Provinces or in Tehran, to increase support of the legal Iranian Government. Such plans and preparations should envisage joint support to the legal Iranian Government including:

a. Correlated political action and military discussions[8] by the United States and the United Kingdom. The dispatch of British forces at the request of the legal Iranian Government to southern Iran should be supported in every practicable manner by the United States in the event of a seizure or a clearly imminent seizure of power by Iranian Communists. The United States should be prepared to give the British in this event full political support and to consider whether or not military support would be desirable or feasible.

* * * * * * *

c. Coordinated United States–United Kingdom support for pro-Western Iranian elements.

d. Efforts to induce nearby countries, particularly Turkey, to assist the legal Iranian Government.

e. As desirable, consultation with selected countries to attain support for the United States position.

f. The perfection of plans concerning the handling of the matter by the United Nations when that becomes necessary.

6. In the event a communist government achieves such complete control of Iran that there is no legal Iranian Government to request Western assistance, and pending further study of this contingency by the United States and jointly with the United Kingdom, the position of the United States would have to be determined in the light of the situation at the time.

7. In the event of a Soviet attack by organized USSR military forces against Iran, the United States in common prudence would have to proceed on the assumption that global war is probably imminent. Accordingly, the United States should then immediately:

a. Seek by political measures to localize the action, to stop the aggression, to restore the *status quo*, and to ensure the unity of the free world if war nevertheless follows. These measures should include direct diplomatic action and resort to the United Nations with the objectives of:

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[8] In NSC 107/1 the word "planning" appeared at this point instead of the word "discussions." The JCS recommended that paragraph 5–a read as follows:

"a. Correlated political action, and military discussions by the United States and the United Kingdom. The United States should be prepared in the event of a seizure or a clearly imminent seizure of power by Iranian Communists to give the British full political support and to consider whether or not military support would be desirable or feasible."

The NSC Senior Staff recommended that the word "planning" be changed to "discussions," but did not accept the deletions and additions proposed by the JCS on the ground that the remainder of the paragraph "incorporates several saving clauses clearly indicating that the question has not been prejudged as to whether the United States should furnish the British military support in the contingencies envisaged by the paragraph."

> (1) Making clear to the world United States preference for a peaceful solution and the conditions upon which the United States would, in concert with other members of the United Nations, accept such a settlement.
>
> (2) Obtaining the agreement of the United Nations authorizing member nations to take appropriate action in the name of the United Nations to assist Iran.

b. Consider the possibility of a direct approach to the highest Soviet leaders.

c. Place itself in the best possible position to meet the increased threat of global war.

d. Consult with selected allies to perfect coordination of plans.[9]

e. While minimizing United States military commitments in areas of little strategic significance, take action with reference to the aggression in this critical area to the extent and in the manner which would best contribute to the implementation of United States national war plans.

8. In view of the current situation in Iran, the United States should, individually and where appropriate jointly with the United Kingdom, examine what additional steps, political and military, might be taken to secure or deny Kuwait, Saudi Arabia, and Bahrein.

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[9] The Joint Chiefs of Staff recommended that a new subparagraph 7-d be added to read as follows:

"d. Examine what steps, political or military, might be taken to secure or deny Kuwait, Saudi Arabia, and Bahrein."

They recommended that subparagraphs 7-d and e in NSC 107/1 then be relettered 7-e and f, respectively. The NSC Senior Staff did not accept the recommendation, but compared the language of the new paragraph 8 adopted at the National Security Council meeting on June 27 at the suggestion of the Secretary of State.

No. 33

Editorial Note

On June 27 the Department of State released to the press a statement by Secretary Acheson in which he expressed regret at the steps being taken by Iran which threatened to close down the Abadan refinery. Acheson stated that he was disappointed that the British proposal presented by Jackson had been summarily rejected without study and expressed his hope that Iran would reconsider and seek some formula that would avoid the dangers inherent in its actions and permit the continued operation of the oil industry.

For text of Secretary Acheson's statement, see Department of State *Bulletin*, July 9, 1951, pages 72-73.

No. 34

888.2553/6-2851

Prime Minister Mosadeq to President Truman[1]

[TEHRAN, June 28, 1951.]

DEAR MR. PRESIDENT: The special interest you have shown on various occasions in the welfare of our country in general, and in the recent oil question in particular, and the personal message you were kind enough to send me on 3 [*1*] June 1951,[2] prompt me to inform you that the Imperial Iranian Government has been duty-bound to put into force the law enacted by the two Houses of Parliament concerning the nationalization of the oil industry all over Iran and the *modus operandi* of that law in the quickest possible time.

Notwithstanding the urgency of the matter, the measures for the enforcement of the law were taken in a very gradual manner and with extreme care and caution, both in order to ensure the success of the preliminary steps, and also in order to bring about an understanding between the Government of Iran and the former oil company, and to give ample time to the latter for negotiations between their representatives and this Government.

The Imperial Iranian Government was ready in all sincerity to make the best possible use of this opportunity and it paid great attention to this matter especially in view of your kind message and the friendly mediations of the US Ambassador in Tehran, and agreed with the request of the former oil company for the extension of the time limit originally fixed for these negotiations. Thus no measures were taken during 45 days after the enactment of the law.

The Imperial Iranian Government had repeatedly announced its readiness to enter into negotiations with the representatives of the company within the limits prescribed by the law fixing the *modus operandi* of its enforcement, and to discuss willingly various problems such as the question of the probable losses to the former oil company and the sale of oil to the former purchasers, etc. The Government, therefore, welcomed the arrival of the representatives of the former oil company, but it was found with great regret that the representatives of the former company wished to submit proposals which were contrary to the text of the laws concerning the nationalization of the oil industry and which made it unable for this Government to continue the discussions.

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[1] Transmitted to the Department of State in telegram 3466 from Tehran, June 28, in which Grady also reported that it had been handed to him by Foreign Minister Kazemi that morning and that the Iranian Government was releasing it to the press at 6 p.m. Tehran time.

[2] Document 26.

Since the Imperial Iranian Government has decided to prevent any stoppage, even for one day, in the exploitation of oil and its sale to the former purchasers, it has repeatedly announced its readiness to employ all foreign experts, technicians and others in the service of the oil industry with the same salaries, allowances and pensions due to them, to provide them with all encouragement, to leave untouched the present organization and administration of the former oil company, and to enforce, so far as they may not be contrary to the provisions of the law, the regulations made by that company.

It is, however, noticed with regret that former oil company authorities have resorted to certain actions which will necessarily cause a stoppage in the exportation of oil; for, firstly, they are encouraging the employees to leave their services, and are threatening the Government with their resignation en masse; secondly, they force the oil tankers to refuse to deliver receipts to the present Board of Directors of the National Oil Company.

Although the Iranian people have prepared themselves for every kind of privations in their resolve to achieve their aim, yet there is no doubt that the stoppage in the exploitation of oil machinery is not only damaging to us but it is also damaging to Great Britain and to all other countries which use the Iranian oil—a grave and serious matter which should be borne in mind by the authorities of the former oil company.

There is no doubt that the Government of Iran will take every effort with all the means at its disposal to prevent any stoppage, even temporarily, in the flow of oil, but it would be the cause for great regret if any stoppage occurred as the result of the resignation en masse of the British employees, or any delaying tactics in loading and shipping of the oil products because of the refusal on their part to give the receipts required. In such an eventuality the responsibility for the grave and undesirable consequences which might follow will naturally lie upon the shoulders of the former oil company authorities.

It must be mentioned at this stage that in spite of the public fervor in Iran there is no danger whatever to the security of life and property of the British nationals in Iran. Any spreading of false rumors on the part of the agents of the former oil company might, however, cause anxieties and disturbances; whilst if they acted in conformity with the expectations of the Iranian Government, there will be no cause whatever for any anxiety, for the Imperial Iranian Government has the situation well in hand.

Owing to the age-long and continuous cordial relations existing between the peoples of Iran and the US, I am confident that no disturbance will ever occur in that happy relation, for the world regards the great and esteemed American nation as the strong supporter of the freedom and sovereignty of nations—a belief evidenced by the sacrifices of the great-hearted nation in the last two World Wars.

Such reflections have moved me to lay before you, Mr. President, the recent developments in Iran, and I am quite sure that the free nations of the world and specially the Government of the friendly nation of America will not hesitate to support us in achieving our national ideal.

I avail myself of this opportunity to offer you, Mr. President, the expressions of my highest consideration and my most sincere wishes for the prosperity of the great American nation.

MOHAMMED MOSADEQ

No. 35

888.2553/7-151 Telegram

The Ambassador in Iran (Grady) to the Department of State

SECRET PRIORITY TEHRAN, July 1, 1951—2 p. m.

6. Eyes only for Secretary Acheson. I wish to make a strong personal appeal to you and to the President if you care to discuss the matter with him. All last fall and winter we endeavored to get the AIOC to change its policy in the interest of the over-all objectives of the British and ourselves vis-à-vis Russia. I talked with Shepherd a number of times, with Furlonge when he was here last November and again with Ambassador Franks in Washington last December. My pleas were in addition to the many efforts made by the Department though the London Embassy and particularly the efforts of McGhee in London last September. All that time it was impossible to get the Foreign Office to influence the oil company to carry out our strong recommendations with regard to some nonmonetary concessions which would enable Razmara to get the supplemental agreements through the Majlis and incidentally to strengthen him to get through various reforms he was seeking to effect.

The same intransigence on the part of the British that thwarted us last fall and into the spring seems again to be manifesting itself. The British, led by Mr. Morrison, seem to be determined to follow the old tactics of getting the government out with which it has difficulties. You will find in recent cables from London some evidences of this and I am sure it is the view of many of the oil officials. (I do not include Jackson as having this view.)

Mosadeq has the backing of 95 to 98 percent of the people of this country. It is utter folly to try to push him out. If he falls of his own weight, that is another matter. When I got him to make the concession of promising to withdraw the antisabotage law,[1] it was interpreted by Mr. Morrison as a manifestation of weakening on Mosadeq's part and a justification for stiffening on the part of the British. This is not the spirit in which to approach the problem here.

Since the Foreign Office is prepared (London telegram 6943 June 30[2]) to allow me to endeavor to get Mosadeq to accept endorsement on receipts for tanker shipments which I proposed (Embtel repeated information Department 3520, June 30[3]) I will endeavor to get Mosadeq's acceptance which will permit outward flow of oil and consequently, continuance of operations of the refinery. This will provide interim period during which efforts can be made to get negotiations re-started especially if, as I have urged, Jackson would explain and elaborate the British position. I think if Jackson could indicate a flexibility regarding the down payment of 10 million pounds and indicate it might be raised to 20 or 25 million pounds, this would greatly help in creating an atmosphere in which negotiations could re-start.

Mr. Morrison's statements in Commons, including personal criticism of Mosadeq, are anything but helpful. If I am unable to get Mosadeq to accept endorsement on receipts proposed by the company, there will be great unemployment resulting from the inevitable closing down of the oil refinery.

We have about ten days in which to get some action before the catastrophe of closing down of the plant takes place. If the British think they can, as some directors have said, bring the Iranians to their senses by having the plant closed down, they are making a tragic mistake. Those who are making the policy on the oil question in London evidently are counting on Mosadeq falling if the plant closes. This is very doubtful. In any case it is my opinion there is no chance of any reasonable Prime Minister succeeding him. (London telegram 191, July 1.[4]) It is all too likely that the country will quickly fall into a status of disintegration with all that implies.

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[1] On June 28 Ambassador Grady told Foreign Minister Kazemi that the antisabotage bill was having a demoralizing effect on the oil technicians and that in the interest of solving the oil dispute it should be withdrawn. (Telegram 3468 from Tehran, June 28; 888.2553/6-2851) On the following day Mosadeq agreed to pigeonhole the bill.

[2] Not printed.

[3] The receipts in question stated the amount of oil received and its destination and indicated that the receipt had been signed by the captain of the oil tanker without prejudice to the rights of the AIOC. (888.2553 AIOC/6-3051)

I appeal for your support and the President's in the policy I am trying to follow here, that is a policy of conciliation and an attempt to bring reasonableness into a most explosive situation.[5]

Grady

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[4] Not printed.

[5] On July 2 Secretary Acheson took a copy of this telegram to President Truman and reviewed the Iranian situation in detail. Acheson told the President that the Department of State was considering a new approach to Iran and the United Kingdom which would involve a *modus vivendi* in the oil dispute and the offer of a U.S. mediator. (Memorandum of conversation by Acheson and memorandum from McGhee, both dated July 2; 888.2553/7-251)

No. 36

888.2553/7-751

Memorandum of Conversation, by the Secretary of State[1]

TOP SECRET [Washington,] July 7, 1951.

Participants: The Secretary of State
Mr. Freeman Matthews—G
Mr. George C. McGhee—NEA
Sir Oliver Franks—British Ambassador

The British Ambassador called, at his request, and presented the attached memorandum from Mr. Morrison dated July 7, 1951, which was in response to conversations between myself and the British Ambassador on the 4th of July relative to the President's proposal to send out a personal representative to Iran to discuss the oil question.[2]

After reading the memorandum I advised that I felt the U.S. Government could and should support the recommendation of the International Court of Justice as requested by Mr. Morrison.[3] I did, however, feel that it might still be desirable for the President to send out a personal representative whose going might be linked to the findings of the Court and who might facilitate a working out of a *modus vivendi* either in the way prescribed by the Court or in some variation of the Court recommendation which might be acceptable to both governments. I then sketched out some of my thoughts in this matter (which were subsequently incorporated in the President's reply to Dr. Mosadeq[4]) for the benefit of the Ambassador.

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[1] Drafted by McGhee.

[2] These conversations were summarized in telegram 72 to London, July 2. (888.2553/7-451)

[3] For text of the International Court of Justice opinion, July 5, see British Cmd. 8425, pp. 45-51.

The British Ambassador stated that he was sure that London would appreciate United States support of the ICJ recommendation and might not oppose the President's sending out a representative if linked to the Court's decision in the way that I had suggested. He stated, however, that he would like to go back to London on this point and hoped to advise me by noon the day following as to London's reaction.

(The British Ambassador did, on the day following, advise the Secretary that London acquiesced in the proposed reply by the President to Prime Minister Mosadeq's message, even though it was indicated that Mr. Morrison still had the same reservations with respect to the President sending out a personal representative.)

[Attachment]

Foreign Secretary Morrison to Secretary of State Acheson

TOP SECRET [LONDON, July 7, 1951?]

H.M. Ambassador has reported to me your conversation with him on the 4th July about Persia, and your suggestion that President Truman might appoint a personal representative to discuss a settlement of the dispute with the Persians and us, to see whether any road to a solution could be found.

Let me say at once that I fully share your concern at the course of events which may develop from the present deadlock and that I greatly appreciate your wish to make some positive contribution towards a satisfactory solution. The concern which you feel, and the suggestion you have put forward, encourages me to give you a very frank reply.

Since I became Foreign Secretary you and I have been able to settle a number of difficult issues between us. In several of these a settlement has been reached by our going a considerable way to accept the American view. In dealing with this question of Persian oil, where we find ourselves in grave difficulties, we need your wholehearted support. I have greatly valued the help you have already given and I am most grateful to you for your present suggestion, which I appreciate is made with the sincere desire of reaching a settlement. But the suggestion which you made to Sir Oliver Franks of the lines which a settlement might follow seems in substance to differ little from the offer already made to the Persian Government by the Company during the visit of their delegation to Tehran. This offer, which accepted the Persian thesis of nationalization, was rejected out of hand, and since then the Persian Government have refused to consider anything but the full implementation of their nationalisation laws.

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[4] *Infra.*

There is, however, a more important thought in my mind in considering your main proposal. I must tell you that one of our main difficulties in dealing with this intractable problem has arisen from a belief persistently held by many Persians that there is a difference of opinion between the Americans and the British over the oil question and that America in order to prevent Persia being lost to Russia, will be ready to help Persia out of any difficulties which she may encounter as a result of the oil dispute. Influential and friendly Persians themselves have told us this, and stressed that it is an important factor in encouraging Dr. Mossadegh's present intransigence. An approach by a representative of the President as you suggest would, I fear, merely encourage Dr. Mossadegh in this belief. The danger of this would be all the greater since the decision given by the Hague Court, which has introduced a new and most important factor in the situation. The Court has recommended that nothing should be done to hinder the continuation of the Company's operations as carried on before the 1st May, and that these operations should be carried on under the Company's management as constituted before that date. It has recommended the setting up of a Board of Supervision to ensure that the Company's operations are carried on in accordance with the Court's recommendations. We have declared our full acceptance of these recommendations. It is now up to the Persian Government to do the same and put an end to the unwarranted interference by the temporary Board in the Company's operations, which are now threatening to bring the operations to an end.[5] I feel most strongly that what is wanted from you now is not an offer to mediate, but a firm and categorical statement that it is up to Persia to accept and follow the recommendations of the Hague Court. Such a statement, making it clear once and for all that the United States of America can give no sympathy or help for a country which flouts a decision of the world's highest legal authority, would be of the utmost value at the present critical juncture.

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[5] On July 9 the Iranian Government rejected the opinion of the International Court of Justice.

No. 37

888.2553/7-851

President Truman to Prime Minister Mosadeq[1]

SECRET WASHINGTON, July 8, 1951.

MY DEAR MR. PRIME MINISTER: I am most grateful to Your Excellency for giving me in ur recent ltr[2] a full and frank account of the developments in the unhappy dispute which has arisen between ur Govt and the Brit oil interests in Iran. This matter is so full of dangers to the welfare of your own country, of Great Britain and of all the free world, that I have been giving the most earnest thought to the problems involved. I had hoped that the common interests of the two countries directly involved and the common ground which has been developed in your discussions would open the way to a solution of the troublesome and complicated problems which have arisen. You know of our sympathetic interest in this country in Iran's desire to control its natural resources. From this point of view we were happy to see that the British Government has on its part accepted the principle of nationalization.

Since British skill and operating knowledge can contribute so much to the Iranian oil industry I had hoped—and still hope—that ways could be found to reconcile the principle of nationalization and British interests to the benefit of both. For these reasons I have watched with concern the breakdown of your discussions and the drift toward a collapse of oil operations with all the attendant losses to Iran and the world. Surely this is a disaster which statesmanship can find a way to avoid.

Recently I have come to believe that the complexity of the problems involved in a broad settlement and the shortness of the time available before the refinery must shut down—if the present situation continues—require a simple and practicable *modus vivendi* under which operations can continue and under which the interests of neither side will be prejudiced. Various suggestions to this end have failed. The time available is running out.

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[1] Transmitted to Tehran in telegram 45, July 8, for immediate delivery. An earlier draft of this message was sent to President Truman on July 7 under cover of a memorandum for the President by McGhee. The earlier draft was, except for minor differences, the same as the message printed here. (888.2553/7-751) Regarding the delivery of the message to Mosadeq on July 9, see the memorandum of conversation, *infra*.

[2] Document 34.

In this situation a new and important development has occurred. The International Court of Justice, which your Government, the British Government and our own all joined with other nations to establish as the guardian of impartial justice and equity has made a suggestion for a *modus vivendi*.

Technical considerations aside, I lay great stress on the action of the Court. I know how sincerely your Government and the British Government believe in the positions which you both have taken in your discussions. However, I am sure you believe even more profoundly in the idea of a world controlled by law and justice which has been the hope of the world since the San Francisco Conference. Apart from questions of jurisdiction no one will doubt the impartiality of the World Court, its eminence and the respect due to it by all nations who signed the United Nations treaty.

Therefore, I earnestly commend to you a most careful consideration of its suggestion. I suggest that its utterance be thought of not as a decision which is or is not binding depending on technical legal considerations, but as a suggestion of an impartial body, dedicated to justice and equity and to a peaceful world based upon these great conceptions. A study of its suggestion by your Government and by the British Government will, I am sure, develop methods of implementing it which will carry out its wise and impartial purpose—maintaining the operation of the oil industry and preserving the positions of both Governments. Surely no government loses any element of its sovereignty or the support of its people by treating with all possible consideration and respect the utterance of this great court. Our own government and people believe this profoundly. Should you take such a position I am sure that the stature of Iran would be greatly enhanced in the eyes of the world.

I have a very sincere desire, Mr. Prime Minister, to be as helpful to you as possible in this circumstance. I have discussed this matter at length with Mr. W. Averell Harriman who as you know is one of my closest advisers and one of our most eminent citizens. Should you be willing to receive him I should be happy to have him go to Tehran as my personal representative to talk over with you this immediate and pressing situation.

May I take this opportunity to assure Your Excellency of my highest consideration and to convey to you my confidence in the future well-being and prosperity of Iran.[3]

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[3] The source text is not signed.

No. 38

888.2553/7-1151

Memorandum of Conversation, by the Second Secretary of the Embassy in Iran (Stutesman)[1]

SECRET TEHRAN, July 11, 1951.

Participants: Prime Minister Mohammed Mosadeq
Ambassador Henry F. Grady
John H. Stutesman, Second Secretary of Embassy (Translator)

Reference: Embtel 109, July 9, 1951[2]

Ambassador Grady called on Prime Minister Mosadeq at the latter's residence at noon, July 9, to deliver a message from President Truman (Deptel 45, July 8).[3] The Prime Minister was in bed as usual. His physical appearance and speech indicated that although he was tired he was still quite vigorous.

The Ambassador handed him the Persian translation of the President's message which had been typed in the Embassy. The Prime Minister read this document slowly and with careful attention and then, laying down the paper, burst into laughter for as long as thirty seconds. "This comes too late", he said.

"Our reply to the Hague Court", he continued "has been approved by the two Majlis Commissions and by the Council of Ministers and is being sent today and, possibly, is already on the way. We consider the entire question to be closed". The Ambassador pointed out that the President's message was written in a warm and friendly tone and he requested the Prime Minister to give it careful attention. The Prime Minister replied that he appreciated the President's interest but that the Iranians had never expected to abide by the decision of the Hague Court which they considered had no jurisdiction in the oil dispute. He conceded, however, that the President's message might have had "a little effect on Iranian public opinion" if it had been received before the Government had concluded its discussions and had approved the official reply to the Court.

The Ambassador said "I assume that your reply to the Hague Court is negative?" The Prime Minister said "Yes". The Ambassador asked if the Embassy could have a copy of the reply and the

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[1] Transmitted as an enclosure to despatch 42 from Tehran, July 11. (888.2553/7-1151)

[2] Telegram 109 transmitted Grady's initial report on his conversation with Mosadeq. (888.2553/7-951)

[3] The message is printed *supra*.

Prime Minister immediately gave instructions to a summoned clerk, ordering that a copy of the message be sent to the Embassy as soon as possible. (*Note:* no message was received although next morning an Embassy representative was able to obtain the official Persian text and the official French translation. The English translation made at the Embassy from the Persian and checked against the French text was telegraphed to the Department in Embtel 126, July 10.[4])

The Ambassador then asked what the Prime Minister's intentions were in regard to publishing the President's letter to him. The Prime Minister said that to him it made no difference, although he thought it would be better for the American position in Iran if the letter were not published. The Ambassador pointed out that the press had received releases of previous messages between the President and the Prime Minister and would certainly expect release of this message. He said further that journalists are often prone to speculation and would probably write wild stories if the message were not released.

The Prime Minister appreciated this point of view but again said that he advised the Ambassador not to allow the letter to be published as it would "anger" the Iranian people against the United States. He expanded on this theme and became bitter in his remarks about United States policy for the first time in any of the Ambassador's conversations with him. "The message takes the British side entirely. The Americans have always taken the British side in this oil dispute and have never given aid to Iran". The Ambassador said, "The British accuse me of always taking the Persian side". The Prime Minister replied, "The British are mistaken."

"Furthermore, your President's message asks me to consider a matter which has been already settled by our reply to the Hague Court and our reply to President Truman is in our message to the Court. You will see when you read it that your President has taken the British side".

No reference was made by the Prime Minister to the penultimate paragraph of the President's message in which the suggestion was made that Mr. Averell Harriman might come to Iran to discuss "this situation" with the Prime Minister. The Ambassador did not raise the matter in view of the Prime Minister's completely adamant position in refusing to reopen any discussions of the Hague Court decision.[5]

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[4] Not printed.

[5] The text of Mosadeq's response to President Truman was conveyed to the Department in telegram 147 from Tehran, July 11, which also reported that it would be released to the press on the following day. Mosadeq stated that the AIOC still had not recognized the principle of nationalization, but he welcomed the suggestion of a visit by Averell Harriman. (888.2553/7-1151)

No. 39

888.2553/7-951: Telegram

The Secretary of State to the Embassy in Iran[1]

TOP SECRET PRIORITY WASHINGTON, July 9, 1951—4 p. m.

49. Personal for Amb from the Secretary. I am deeply concerned at initial reaction of Mosadeq to President's msg which you reported in Embtel 109 July 9,[2] and at probable effect which summary rejection by Mosadeq of President's proposals wld have on US prestige in Iran, future US-Iranian relations, and possibility of US playing constructive role in settlement of oil dispute. Assume that you had this danger fully in mind when you presented msg and that President's proposals were put forward as forcefully as possible during your conversation. I am particularly concerned that question of Harriman's coming to Tehran was not raised, since this is the one new positive element contained in President's proposal and is step to which President and I both attach greatest significance.

I cannot believe that Mosadeq's initial reaction will, upon reflection, be his final one. Considerations of courtesy will lead him, I am convinced, to take no hasty or abrupt action, to give President's msg full consideration and to receive President's personal rep who can give both you and Mosadeq the benefit of the great thought which President has put to this matter and receive any suggestions which Mosadeq may have.

Therefore request that you see Mosadeq again as speedily as possible and in the tactful way which I know you will employ urge these considerations upon him. You might, in this connection, point out to him the adverse effect which rejection of President's very sincere attempt to be constructive might have on attitude of US and other countries towards Iran. You might emphasize that President's proposal is attempt to inject new element into situation which in our judgment is deteriorating rapidly and holds grave consequences for future. If you consider appropriate you might urge reconsideration by Iranian cabinet of reply to ICJ.

FYI, intent of President's msg was to link Harriman's coming with ICJ recommendation in order to emphasize our support of ICJ and facilitate acceptance its proposal or some variation thereof by

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[1] Drafted by Acheson and McGhee, cleared by Matthews, and signed by Acheson.

[2] See footnote 2, *supra*.

IranGov. Wording of President's msg was, however, purposely left general so that Harriman's coming might be considered independently from ICJ suggestion. We believe, even if ICJ recommendation is rejected irrevocably by Iranians, Harriman's visit cld perform constructive role. I wld, therefore, appreciate it if you wld on personal basis facilitate the Iranians coming to that conclusion.

ACHESON

No. 40

888.2553/7-1251

Memorandum of Conversation, by the Assistant Secretary of State for Near Eastern, South Asian, and African Affairs (McGhee)

TOP SECRET [WASHINGTON,] July 12, 1951.

Participants: The Secretary of State
Mr. H. Freeman Matthews—G
Mr. W. Averell Harriman—Special Assistant to the President
Mr. George C. McGhee—NEA
Sir Oliver S. Franks—British Ambassador

The British Ambassador called at his request. He first of all stated that he had, on reflection, discovered that the first question raised in the *Aide-Memoire* which he had brought to the Department the previous evening had due to oversight not been discussed.[1] This point involved the British proposal, subject to approval by the Cabinet, to announce a phased withdrawal of British technicians in Iran starting with those in the oil fields and ending with those in the Abadan Refinery. The withdrawal could be stopped at any time if the Iranian Government proved more cooperative in working out a settlement of the oil issue. The Department representatives confirmed that this point had not been discussed, whereupon the British Ambassador asked what the Department's views were in this matter.

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[1] On July 11 Ambassador Franks called at his own request on Secretary Acheson, McGhee, Matthews, and Hickerson to discuss the Iranian oil crisis. He presented, but did not leave, an *aide-memoire* which covered the following points: (a) phased withdrawal of technicians from Iran, (b) the assumption that Mosadeq's reply to President Truman confirmed the Iranian rejection of the International Court's decision, and (c) a proposal to take the question to the U.N. Security Council and a request for U.S. support of that position. Ambassador Franks was told that referral to the United Nations just as Harriman was about to depart for Iran with a new initiative appeared to be unwise and that he should be given an opportunity to improve the situation. (Memorandum of conversation by McGhee, July 11; 888.2553/7-1151)

The Department's representatives replied that the proposal would in their judgment be wrong from a tactical standpoint, since the Department had always believed that the best policy for the British to pursue was to hold on in Iran as long as possible in the hopes of a turn for the better. Indeed this had, up to now, appeared to be the British policy. If, in fact, the British did not wish to withdraw and were announcing their intention of withdrawal only to induce the Iranians to back down, they ran the risk that the Iranians might not back down and that the British might be forced to carry out their announced intention. It was thought that everyone had agreed, particularly Mr. Drake, the AIOC Manager, that once the British withdrew it might prove very difficult or impossible for them to ever come back. In any test of will with the Iranians or any attempt at a bluff the British might, in the light of the highly irrational and emotional view of the Iranians, not be successful. Evidence from other similar situations, as for example that in Mexico, has shown that people do not easily recede from emotional nationalist positions even when the economic stakes are high. The Department recommended that the British not make the announcement in question, but rather attempt to hold on in Iran with all the patience at their disposal in a hope of a change in the situation.

The British Ambassador then stated that he had a note from Mr. Morrison which he had been instructed to give to the Secretary in hopes that it could be given to Mr. Harriman before his departure (copy attached).[2] Mr. Harriman read the note but stated that he did not feel it proper for him to comment on the points raised. No comment was made either by any of the Department representatives present. The British Ambassador stated that he was not requesting comments, that his purpose had been achieved when the note in question had been delivered to Mr. Harriman. He merely wished Mr. Harriman to have the UK point-of-view with respect to his mission and hoped that he would keep these points in mind in his discussions with the Iranians.

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[2] The attached note, as sent by Morrison to Franks from London on July 12, is not printed. In the note, the British Foreign Office stated, *inter alia*, that it would be difficult for Harriman to find a basis for discussing Iran's position regarding the recommendations of the Hague Court and Mosadeq's stand on the nationalization laws. Mosadeq could be expected to use the occasion of Harriman's visit to bring further pressure on the United Kingdom to accept the nationalization laws (as opposed to the principle of nationalization), thereby further prejudicing the British position. The note expressed the hope that Harriman would impress on Mosadeq the implications of flouting the Hague Court and persuade him to accept the Court's recommendations. Subject to cessation of Iranian interference in the company's operations and resumption of operations by the company under the company's management, the United Kingdom was ready to discuss a settlement based on the offer already made to the Iranian Government by the company during its delegation's visit to Tehran. The note concluded with a request that Harriman keep in close touch with the British.

The British Ambassador then reviewed at some length the difference between the U.S. and U.K. positions with respect to the Iranian issue, and asked what the U.K. could do to facilitate the success of Mr. Harriman's mission. It was in general suggested to the Ambassador that it would appear best for the U.K. not to take any new steps for the time being either to increase their pressure against the Iranians or to redefine their position, pending Mr. Harriman's arrival. The next step to be taken could, it is believed, best be determined after Mr. Harriman has had an opportunity to explore the situation on the ground with the Iranian officials and the British and American Ambassadors. The British Ambassador stated that he hoped Mr. Harriman would consult freely with the British Ambassador, who is at his disposal, since the British Government relied greatly on the "man on the spot".

I then outlined my own views as to how I thought Mr. Harriman might approach his task in terms of the various elements of the problem. I stated that the Iranians had in accordance with their own view now nationalized their oil properties, however they had not yet discovered any effective means of operating them under their nationalization laws. The British, on the other hand, stood ready to provide both the technicians, the management, the tankers, and the markets which were necessary to the Iranian oil industry. The customers of Anglo-Iranian were prepared to pay for the crude and products which were taken away from Iran. The immediate problem seemed to me to put these elements together in some type of interim trustee arrangement as suggested by the ICJ. Such arrangement should provide for the impounding of the receipts, the taking out of the expenses of the operation, and the ultimate division of the profits remaining in accordance with the agreement reached. It seemed to be that somewhere along these lines a solution could be found.[3]

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[3] On July 13 Burrows discussed the question of the loan with McGhee, saying "that his Embassy was under instructions to present to the Secretary the view that the British Government assumed that the U.S. would not, while Iran was in defiance of the recommendations of the Court of Justice, make the proposed loan." McGhee reviewed the background of the loan and told Burrows that the U.S. position was to take no new steps "with respect to the loan, neither withdrawing it nor pushing it." Following his conversation with Burrows, McGhee sent a memorandum to Secretary Acheson, reviewing his talk with Burrows, noting that Mosadeq had submitted the loan agreement to the Majlis, and recommending that the United States should not withdraw the loan, but "should through continuing negotiations delay its implementation until such time as contrary action becomes desirable with the realization that it may become necessary at any moment to proceed with the urgent implementation of the loan." (Memorandum of conversation and memorandum by McGhee, both dated July 13; 888.10/7-1351)

C. The Harriman Mission

No. 41

Editorial Note

On July 13, the Harriman Mission, composed of W. Averell Harriman, William M. Rountree, Walter Levy, and General Landry, Air Force Aide to President Truman, left Washington. For text of the official remarks made at the departure by President Truman, Secretaries Acheson and Marshall, and Harriman, and a statement by McGhee concerning the relation of the mission to the oil dispute, see Department of State *Bulletin,* July 23, 1951, pages 130–131. On the following day Harriman stopped in Paris where his wife joined him. In Paris he talked with Hugh Gaitskell, British Chancellor of the Exchequer, along the lines of the conversation with Ambassador Franks on July 12. (Memorandum of conversation, *supra*) (Telegram 295 from Paris, July 15; 888.2553/7–1551) The mission arrived in Tehran at 11 a. m. on July 15 and was greeted by an estimated 10,000 pro-Communists demonstrating in front of the American Embassy against the AIOC and the arrival of the mission. (Despatch 197 from Tehran, August 13; 888.2553/8–1351)

On July 16 Harriman had his first discussion with Mosadeq and on the next day presented his letter of introduction to the Shah. From July 17 to 27 the various members of the mission and Ambassador Grady discussed possible solutions to the oil dispute with Iranian officials and members of the British Embassy staff. By July 27 these talks had seemingly reached an impasse and Harriman, Rountree, and Levy flew to London to discuss the issues directly with the British Government. The negotiations in London proved successful and on July 31 the three members of the mission returned to Tehran, reporting that the British had agreed to send a delegation to Iran headed by Richard Stokes, Lord Privy Seal. (See Document 65)

While the Stokes Mission was in Tehran, August 4–23, Harriman and his staff remained at the disposal of British and Iranian officials, endeavoring to keep the discussions between them from breaking down. With the suspension of the Anglo-Iranian talks on August 23, Harriman informed Mosadeq that he would leave for Washington on August 25, since he could no longer provide any useful service in the dispute, but stated that he would return if he could assist in the resumption of the talks.

From Tehran Harriman flew to Belgrade for talks with Marshal Tito on August 25 and 26. (Telegram 1058 from London, August 27;

Foreign Relations, 1951, volume IV, Part 2, page 1842) He then stopped at Paris on August 26 before arriving in London on August 27. In London he again talked with the British about the Iranian situation before returning to Washington by September 1. (See Document 78)

No. 42

888.2553/7-1751: Telegram

The Special Assistant to the President (Harriman) to the Department of State[1]

TOP SECRET PRIORITY TEHRAN, July 17, 1951—3 p. m.

240. From Harriman for the President and Secretary; distribution only as directed by the Secretary's office. Sunday[2] Grady briefed me on developments and at his suggestion I saw Mosadeq yesterday alone except for an interpreter. I called on him in the morning and he came to my residence in the late afternoon.[3] Between the talks Grady and I lunched with Shah.

At my first talk Mosadeq received me most cordially at his home. His only significant remark was: "When there are two divergent points of view it is good to have the help of a third party." Otherwise he gave me his interpretation of events as told to and reported by Grady on numerous occasions. I proposed that we should discuss the details of the problems of oil production and distribution at our next meeting.

For the afternoon session he brought with him Hasibi, Under Secretary of Finance and Saleh, chairman of the National Oil Co. Walter Levy gave these two men probably their first frank detailed education on the technical aspects of how the worldwide oil business was conducted.[4] While these technical discussions were being carried on, I talked with Mosadeq about how a settlement might be reached. He was completely rigid in his statements. He had no desire to talk with representatives of the British Government or the oil company. He asked that I propose a formula of settlement, provided it conformed to the nine points of the recent Nationalization Law. If this formula met his approval, I could then take it to the British. This I declined to do, but emphasized the need for an immediate *modus vivendi*. I explained the disastrous results that would follow a shut-down of the refinery, not only in the immediate effect on the Iranian economy but in the problem of getting the business going again. I explained the difficulty of bringing an operating organization together again and of selling oil after the market had been taken over by other sources. Mosadeq took the position that then Iran wld fall into Communist control. This he considered was the obligation of the British and ourselves to prevent. I told him quite bluntly that while such a happening would be unfortunate for the free world it would be the end of his country.

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[1] Two copies of this telegram were sent to the White House during the afternoon of July 17. The telegrams to and from Harriman in Tehran and London were numbered in series with other telegrams to and from those Embassies. The incoming telegrams bear Ambassadors Grady's or Gifford's signatures.

[2] July 15.

[3] Memoranda of Harriman's conversations with Mosadeq at the Prime Minister's home in the morning and at the Sahebgaranieh Palace in the afternoon are in file 888.2553/10-1051.

[4] In his talks from 5:30 to 8:30 p. m., Levy told Hassibi and Saleh that they probably could not sell Iranian oil without the use of the AIOC facilities, that Iranian production could be made up by other fields, and that price reductions on the oil would probably not attract customers. (Memorandum of conversation; 888.2553/7-1651)

He appears obsessed with the idea of eliminating completely British Oil Company operations and influence within Iran, though willing to sell oil to them. I told him we could not associate ourselves with any proposal that treated the British with such lack of consideration. I emphasized the importance of free world solidarity and declined to believe a way could not be worked out by which Iran could get the essential benefit of British help for production and distribution and yet preserve the desire for control of Iranian resources and the elimination of the political influence which he considers the AIOC had exercised. (I will send further details of this conversation when the notes are written up.)

I reiterated the immediate necessity for a temporary arrangement by which oil could begin to move promptly. Then there would be time to work out a permanent solution. In reply to his request I agreed to consider with Grady whether we could make a suggestion for such a *modus vivendi* which might be acceptable to both parties.

In spite of Mosadeq's cordial attitude, I am gravely concerned over his rigid and adamant position, not only in regard to his objectives but also to the precise and impractical manner in which he is determined to attain them.

The Shah seemed more vigorous than I expected. He is relieved that there is nothing basically wrong with his physical condition, and he has regained his strength following the operation. He discussed the situation calmly, explained that unless a solution could be worked out with Mosadeq a very grave situation will be created, particularly since it would be difficult or impossible to replace the Mosadeq Govt unless there is a complete change of attitude in the country towards him and his program.

I will have a full talk with Grady today and decide what our next move should be. There is a slight possibility that Levy's conversations with the Iranian officials may weaken Mosadeq's confidence that he can "go it alone" without British cooperation in some form.

[HARRIMAN]

No. 43

888.2553/7-1951 Telegram

The Special Assistant to the President (Harriman) to the Department of State

TOP SECRET PRIORITY TEHRAN, July 19, 1951—noon.

276. From Harriman for the President and Secretary. No distribution except as directed by Secretary's office. Grady had five friendly Iran political figures[1] to dinner Tuesday night[2] which gave me an informal opportunity to explain the economic consequences of oil shut-down and necessity of working out arrangements in some form with British. They appeared to agree that a solution with British should be reached. They also said that the opportunity provided by my presence must not be lost. On other hand, they pointed out that they had little influence on Mosadeq at moment and that he had captured popular emotion and widespread support.

Wednesday morning Ala, Minister of Court, present Tuesday night, called on me. We had a long and frank discussion. He explained the Shah's position, saying that he realized the issues at stake and yet could not safely take any direct action. The country is so strongly behind Mosadeq that no other individual could now obtain popular approval of a deal with British. He believes every effort must be made to persuade Mosadeq to be reasonable. Ala said that even Mosadeq could not repudiate the nine point Nationalization Law but could interpret the points liberally and make additions. In any event British political influence in Iran affairs must be stopped both by oil officials and British Govt. He referred to "shooting trips" by Military Attaché which in fact were for purpose of contacting tribal leaders.

I told him I had come to conclusion that only way to break impasse was through govt to govt (British-Iran) discussions and suggested the advisability of a member of British Cabinet coming to Tehran while I was still here.

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[1] Presumably this is the same group referred to in footnote 2, Document 18.

[2] July 17.

I said I was sure his govt could attain its political objectives as above, but the oil deal would be difficult considering Mosadeq's rigidity. In answer to his question I pointed out new operating company of Iran registry owned by British and perhaps other previous customers (consisting mostly of European subsidiaries of AIOC held solely or jointly with other international oil companies) could be organized to act for a fee as agent to Iran National Oil Company for operation of oil fields and refinery. Also a long-term contract with AIOC for sale of oil might be made at substantial discount from market. I told him bluntly that whatever the form of arrangement the oil companies in total would have to obtain equivalent of 50 percent of the net receipts. This point we discussed at considerable length. I believe he understands clearly reasons and indicated that Iran Govt's objective should be to sell largest volume of oil possible to produce maximum income regardless of percentages.

Wednesday afternoon I was invited to meet separately the Presidents of Senate and of Majlis with a group of members of both Houses. At meeting with Senators over half of membership, about 35, were present. Following several cordial and flowery speeches of welcome and expressions of respect for President Truman, I spoke at some length. After expressing US great interest in Iran and President Truman's personal concern over present controversy and free world solidarity, I presented forceably the economic dangers of loss of their oil industry. I told them now that they had attained their political objectives through nationalization laws they must combine reason with enthusiasm and protect their oil income as a basis for economic development. From questions that followed I gained impression that they understood implications of what I had said. Individuals expressed privately to me their concern that the govt was being too rigid and had made mistake in rejecting oil company's last proposal out of hand. Several asked for further personal talks.

Majlis group consisted of about dozen. Most of them made speeches to me of cordial but general nature. I said much the same as I had to Senate. The meeting was more formal and I could not appraise their reaction except for feeling that they all hoped that in some manner my mission would be successful. I am seeing Ala Thursday morning and Shah in afternoon. Also the mixed oil commission is calling on me later. I plan to see Mosadeq following day. I hope that some influence will by then have been brought to bear on him from my various talks. My objective will be to induce him to agree to immediate govt to govt talks with British and acquiesce to a British Cabinet Minister's visit to Tehran. If he should agree, regarding which I am not at present optimistic, he cannot make rigid conditions of prior acceptance by British of his nine points nor can the British insist on observance of Hague Court recommendations.

If British Minister—preferably, I think, Gaitskell—would come without a fixed formula but with latitude to negotiate he might well be able to work out an acceptable deal, or at least a *modus vivendi* which could serve as a basis for a final agreement.

[HARRIMAN]

No. 44

888.2553/7-1951: Telegram

The Special Assistant to the President (Harriman) to the Department of State

TOP SECRET PRIORITY TEHRAN, July 19, 1951—4 p. m.

285. From Harriman for the President and Secretary. No distribution except as directed by the Secretary's office. I have reported by separate telegram the general course of my discussions with Iranians.[1] It might be useful to outline to you some of the basic elements of the situation which I have found and which must be taken into account in my efforts to work out some solution.

There is complete unanimity of opinion among qualified American officials that Mosadeq is strongly supported by very large majority of Iranian people, and no Iranian program has ever been backed to the extent of his program to eliminate Brit influence in Iran and nationalize the oil industry. In whipping up public emotions on this issue, however, Mosadeq has created an atmosphere which has made it possible for extreme elements, both right and Communist, to establish situation under which it is practically impossible for him substantially to retreat. While it is generally believed that Mosadeq is the only man who cld make deal of any kind with the Brit without it resulting in strong opposition and violence, he cannot conclude an agreement which he cld not square with the nine points of the nationalization law.

Mosadeq's rigidity thus results as much from practical political factors as from his emotionalism. There is chance that he can be convinced to some extent upon the practical realities on the oil company operation, and that his emotions can to degree be tempered with realism. It is more unlikely, however, that he can be convinced that the political aspects of the problem wld permit him to seek an amicable settlement with the Brit which wld appear to involve concessions on his part.

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[1] *Supra.*

From my conversation with the Shah and Ala, it is clear that they believe the Shah cannot now afford to replace Mosadeq and install a more amenable govt, and US officials question his current power to do so in any event. Under the circumstances the less talk by the Brit and ourselves about possible change in govt, the better. If dangerous crisis is to be avoided we must try to deal with Mosadeq, and every effort shld be made to find solution which will protect basic Brit interests, but which will not admit that the nine points of the nationalization law are not being adhered to. Rather, results might be achieved through interpretation of law and perhaps additional legislation.

The most encouraging factor that I can report at this time is that there is growing feeling among responsible Iranians that opportunity of settlement provided by my presence shld not be lost.

[Harriman]

No. 45

888.2553/7-1951: Telegram

The Secretary of State to the Embassy in Iran[1]

TOP SECRET WASHINGTON, July 19, 1951—8 p. m.
PRIORITY NIACT

147. Eyes only Amb and Harriman. Fol tel contains substance note just left with Secy by Brit Amb with respect to proposed withdrawal of Brit personnel from the Iran oil fields.[2] Amb advised that tel subsequently recd from Shepherd in Tehran suggests announcement be made on Mon 23 Jul instead of Fri 20 Jul and the withdrawal begin on Tues 24 Jul instead of Mon 23. This change has subsequently been confirmed from London. There was indication from Amb not completely clear from Shepherd in another tel that recommended delay is at least in part as result suggestion by Harriman, as a consequence of which Dept has reason to believe that you may both be apprised of Brit move.

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[1] Drafted by McGhee, cleared by Bonbright and Matthews, and signed by Secretary Acheson.

[2] Telegram 148, July 19, stated, *inter alia*, that due to the deteriorating situation in the oil fields instructions were being sent to withdraw British personnel beginning July 23. (888.2553/7-1951) Ambassador Franks' note is in file 888.2553 AIOC/7-1951.

Amb was advised that if withdrawal of Brit personnel, which was assumed to mean oil fields and not refinery area, was for tactical purposes that Dept position wld be same as that conveyed to Amb at mtg with Harriman Jul 12 namely that we felt best Brit policy was to hold on in Iran by keeping employees on jobs as long as physically possible and particularly to make no move which wld have effect of putting increased pressure on Iranians during Harriman discussions. Amb was advised that info contained in last two tels from Harriman, Embtels 276 and 285 Jul 19,[3] gave us sufficient encouragement to propose this course of action even more strongly. If, however, the move was dictated by considerations of safety of personnel then Dept understood that Brit Govt may find it necessary to go ahead with proposed action. Amb advised that from the info available to him, particularly that from Kermanshal indicating steady deterioration of conditions affecting Brit personnel, that he believed move to be dictated by considerations of safety. He did indicate, however, that the probable effect of the move on the Iranians might have played some small part in the decision. Dept requested permission advise Harriman and Grady urgently of the proposed Brit move so that they wld have opportunity to present their views with respect to the move to Shepherd who cld in turn relay them to Brit Govt before final announcement is made. It was suggested that if Brit Govt cld not delay proposed move perhaps they might at least leave timing to Shepherd who might be guided by Harriman talks with Mosadeq scheduled for Sat. Amb impressed upon Dept and Dept wishes to impress upon Emb importance of extreme secrecy in this matter in light of danger to personnel and success of move event of premature leak.

ACHESON

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[3] Document 43 and *supra*.

No. 46

888.2553/7-2051: Telegram

The Special Assistant to the President (Harriman) to the Department of State

TOP SECRET PRIORITY TEHRAN, July 20, 1951—11 a. m.

287. From Harriman for the President and Secretary (no distribution except as directed by the Secretary's office). Ala told me Thursday morning[1] that Mosadeq had been persuaded to receive, if

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[1] July 19.

we cld arrange it, a British Cabinet minister without prior conditions to discuss relations between the two countries.

When I called on Mosadeq, however, he told me this was not so. He maintained he cld only receive a British rep if the British recognize in advance the nationalization law. In a long argument I pointed out that if he took this rigid position the British wld stand on the court decision, and the impasse wld continue with increasingly dangerous consequences. He appeared anxious not to have me leave this mtg with a completely negative reaction and said that he wld discuss the matter with Shah and his associates. I gained the impression that he was in fact afraid of violent public reaction if he appeared publicly to be giving in to the British.

When I reported the conversation to the Shah Thursday afternoon, who also received me in bed due to slight fever, he said that he wld talk to Mosadeq Friday and use his influence to induce him to recede from his position.

Later Thursday evening Busheri, Minister Roads, who has been assigned to stay with me, said that he had seen Mosadeq after my call and what Mosadeq now has in mind is that he wld receive the British minister if the British make clear their acceptance of nationalization in principle. I have found that Iran officials have doubts that British have in fact accepted the principle of nationalization even with ref to the nine point nationalization law. They consider they have no clear-cut communication to that effect.

If it develops that Mosadeq will agree to accept the suggestion of a visit by a British minister, I am counting on your support in inducing the British to send a minister of standing with authority to negotiate on a broad basis and without demanding prior conditions. Also the British shld not make public statements inimical to their negotiations and the situation here such as implying that Mosadeq is yielding to pressure.

In my discussion with British Ambassador on Tuesday he agreed that the best hope of coming to an agreement was through the visit of a British minister. I have not however discussed the subject with him since, as my talks with Iranian officials have so far been inconclusive.

I had a long discussion with the mixed oil committee of the Senate and Majlis late Thursday afternoon and found most of them more concerned and open-minded than I had expected.[2]

[HARRIMAN]

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[2] The meeting took place at 6 p. m. at the Sahebgaranieh Palace. Attending for the United States were Harriman, Rountree, Levy, and Howe; for Iran, Senators Morteza Bayat, Ahmad Matin-Daftari, Rezazadeh Shafaq, and Mohammad Soruri, Deputies Nasr Qoli Ardalan, Mohammad Moazami, and Seyid Ali Shayegan, and Hassibi. A memorandum of the conversation is in file 888.2553/10–1051.

No. 47

888.2553/7-2051: Telegram

The Special Assistant to the President (Harriman) to the Department of State

TOP SECRET PRIORITY TEHRAN, July 20, 1951—3 p. m.

301. From Harriman for President and Secretary. (No distribution except as directed by the Secretary's office.) I am greatly disturbed by Iran Government's action in cancelling Seddon's residence permit.[1] I fully understand adverse reaction this will have in London; also I am surprised that the government did not consult me before making this move. On other hand, certain realities of the scene here should be understood. There is the most wide-spread determination to end British political interference and particularly that of the oil company. Whether it is true or not the Iranians are firmly convinced that Seddon is continuing political intrigue. Unfortunately I did not learn of the decision to expel Seddon until after I had seen Mossadeq on Thursday. I spoke, however, to the Shah about the damaging effect of this action at this time. He appeared not to have heard of it. I have also spoken to Minister Busheri, who said that he would pass on my feeling and attempt to obtain for me accusations against Seddon. There is another factor which should be understood, that Mossadeq and his associates are afraid of British and also afraid to give impression that I am dictating their political actions. This, I believe, is a combination of their own feeling of insecurity plus the knowledge that any indication of weakness on their part will touch off public resentment which would be exploited by extremists on both sides, the extreme Nationalists and the Tudeh Party. I can not guarantee any results from my visit. On other hand, I can say that there is a growing group that are urging government to seize my presence as perhaps last opportunity to re-establish relations with the British and work out a solution. Impulsive expressions of resentment on part of British, in my opinion, will only have the effect of reducing the influence of these people and encouraging extremists. Then the government will be more afraid than ever to make an effective gesture toward the British.

I plan to see the British Ambassador shortly and will ask him whether there is anything useful he thinks I can do at this end. I have received your two messages, 147 and 148, July 19.[2] I have previously urged British Ambassador to delay evacuation of British personnel from oil fields. The British Embassy has informed me this morning that the Commons debate on Iran has been postponed until Mon, July 23 and that it is understood no action regarding evacuation will be taken until after this debate. I will also discuss this matter further with British Ambassador.

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[1] On July 19 the Iranian Government revoked Seddon's residence permit. Three days later, apparently due to the protests of Harriman, Seddon's permit was returned. (Telegram 316 from Tehran, July 21; 888.2553/7-2151)

Reports indicate that morale among British personnel, both in oil fields and Abadan, is declining rapidly but I hope British will hold off as long as they feel they can.

[HARRIMAN]

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[2] See Document 45 and footnote 2 thereto.

No. 48

888.2553/7-2151 Telegram

The Special Assistant to the President (Harriman) to the Department of State

TOP SECRET PRIORITY TEHRAN, July 21, 1951—2 p.m.

314. From Harriman for the President and Secretary (no distribution except as directed by the Secretary's office). I have urged British Ambassador to ask his government to postpone for at least few days any debate on Monday and any announcement of phased withdrawal of personnel. I pointed out that things were moving here in the direction of re-establishing discussions with British, that I felt the Iranian Government was trying to find way which would not create difficulties for them within Iran, and that if British take positive action now, it would undoubtedly make it far more difficult if not impossible for the Iranians as it wld look then as if they were acting under British pressure.

I explained that Mossadeq was showing signs of accepting the visit of British Cabinet Minister without prior conditions but only with clarification that the British Government had accepted the principle of nationalization; that Hasibi admitted the Mixed Oil Commission had been shaken by Levy's and my talks; also in meeting with Levy Friday evening,[1] Hasibi said that the Iranian Government would consider seriously proposal from the British involving an arrangement which the two discussed and which in fact was along the lines of the proposal Jackson was prepared to negotiate.[2] The importance of this is that Hasibi is Mossadeq's most intimate adviser on oil matters and has been most rigid in his prior talks with Levy. Another indication of progress which I told the British Ambassador was that Busheri this morning (Saturday) asked Levy for an outline of the terms of the Venezuelan arrangement and said that he has been with Mossadeq until 1 o'clock last night and was proceeding this morning to meeting with the Shah. Busheri also is Mossadeq intimate.

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[1] Levy and Hassibi had their second conversation on July 18 and their third on July 20. Memoranda of these two conversations, largely concerned with the technical and economic aspects of the oil industry, are in file 888.2553/10-1051.

The British Ambassador agreed to telegraph his government outlining the above and recommending that the debate be postponed for few days or, if that was impossible, that Morrison state clearly the British stood ready at any time to renew negotiations. I maintained that the former was the only sensible course, and pointed out the dangerous probability that some member of the House would make rash statements which wld have most unfavorable effect here. He agreed and mentioned previous statements made in the House by member to the effect that Iran shld be divided between Russia and Britain.

I cannot express too strongly my recommendation that you ask Franks to urge his govt to postpone the debate and any announcement of phased withdrawal for the time being pending developments. I told the British Ambassador here that I had no objection to Morrison, if he felt it necessary giving as an explanation for the postponement that some progress was being made here.[3]

I frankly feel that if the British Government does not cooperate it will make the success of my mission extremely doubtful if not impossible. I am sure you understand that I cannot give any assurances of favorable outcome but I do believe progress is being made in only the few days I have been here.

[HARRIMAN]

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[2] See Document 29.

[3] This telegram was received in the Department at 11:59 a. m. At 1 p. m. the Department cabled Gifford and, after reviewing the progress that Harriman seemed to be making, instructed the Ambassador to tell Morrison that it would be "unfortunate" if the British took any action or made any public statements during the next few days. On July 22, Gifford told Strang who had received a similar report from Ambassador Franks and who had been able to see Morrison late on the night of July 21. Both Strang and Morrison felt it would be difficult to withhold an announcement of the evacuation unless Iran did something to relieve the threat to the British staff in the oil fields. They sent a cable to Ambassador Shepherd instructing him to consult with Harriman on the possibility of prevailing on the Iranians to relax the tension in the oil fields. The matter then would be taken up by the Cabinet on July 23. (Telegrams 490 to London, July 21, and 423 from London, July 22; 888.2553/7-2151 and 7-2251)

No. 49

888.2553/7–2251: Telegram

The Special Assistant to the President (Harriman) to the Department of State

TOP SECRET PRIORITY TEHRAN, July 22, 1951—noon.

321. From Harriman for the President and Secretary (no distribution except as directed by Secretary's office). I saw British Ambassador again last evening (Saturday[1]). He said that although Iranian Government had informed him Seddon would be permitted to remain in Iran, London would be much exercised over the accusations against Seddon. Foreign Minister had told British Counsellor that Seddon had gone to Abadan incognito and met with questionable characters there and inferred possible involvement in recent tragic public demonstration in Tehran.[2] British Ambassador had reported this and he felt sure Morrison would be incensed. I cannot understand why Shepherd has not gone to Foreign Minister himself and insisted on retraction of extreme charges rather than simply reporting incident which he knows will create trouble.

I told him in general of my talks with oil commission. He feels it would be better for first talks to be on government-to-government basis. I agree, providing responsible British Minister visits Tehran. He also said that the British Government would insist on return to *status quo* before any talks could be agreed to. I said this would be impossible and asked him to explain his reasoning. He then said that at least the government instigated anti-British propaganda and the indignities to British personnel must stop. To this I agreed and said I would take this up with the Iranian officials when it seemed propitious.

British Ambassador expressed regret at Abdullah assassination[3]—particularly at this moment when Jordan Ambassador was delivering message from him to Shah and Mossadeq urging them to settle oil dispute with British. I am sure that this message will not only do no good but will cause resentment. The Iranians will receive message simply as another indication of British pressure.

During the discussion I expressed the opinion that Mossadeq was in fact afraid of the fanatical religious leaders and also the extreme nationalist groups. Shepherd agreed . . . .

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[1] July 21.

[2] Presumably a reference to the riots in Tehran on July 15 during which several people were killed and scores arrested.

[3] King Abdullah of Jordan was assassinated on July 20.

I am fearful that Shepherd's expectations may be shared in part at least by London, whereas it seems clear that British must adjust themselves to the realities of the situation that exists in this country, if they are to save their oil business and prevent the development of serious political consequences here.

[HARRIMAN]

No. 50

888.2553/7-2251: Telegram

The Special Assistant to the President (Harriman) to the Department of State[1]

TOP SECRET NIACT TEHRAN, July 22, 1951—7 a. m.

322. From Harriman for the President and Secretary. No distribution except as directed by the Secretary's office. Ala called me this morning[2] at direction of Shah to inform me of developments. He said Shah had told Mosadeq that he must come to settlement of the oil problem since the economic welfare and development of Iran depended on oil income. Mosadeq asked if he should resign. Shah answered in the negative but that he wanted Mosadeq to work out settlement and Mosadeq agreed. Mosadeq then had meeting with Mullah Kashani and National Front leaders and obtained their approval. This has been confirmed to me by Busheri. Busheri also told me this morning that it had been decided to attempt through me to arrange for visit of British Cabinet Minister with representative of oil company accompanying if desired. He said he believed I would be so informed officially by the Mixed Oil Committee representatives who call on me this afternoon and this committee would discuss ways to make arrangement.

Later this morning the British Ambassador called to tell me he had protested to Foreign Minister account unjust charges against Seddon. He explained that they were not true and expressed hope of that in future Foreign Minister would advise him of any complaint against British residents before taking action. Foreign Minister maintained he himself knew nothing of the Seddon case till after incident and confessed inability to obtain such information as the Minister of Interior acted on his own without consultation with him. He agreed, however, to see what he could do to avoid further misunderstanding.

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[1] Repeated to London eyes only for the Ambassador.

[2] Saturday, July 21.

British Ambassador then showed me two telegrams, one from the oil fields in which British manager expressed his concern over increasing interference with British personnel and urged immediate steps for phased withdrawal. The second was from British Foreign Office stating in substance much as they appreciate my efforts they did not feel they could refrain from early action account above information from field. Foreign Office asked for latest info as to my progress by Sunday evening so that Cabinet might consider it at meeting to be held Monday morning. I gave British Ambassador general substance of what I have reported above and asked him to urge few days delay. He said he would report what I told him and seemed much impressed particularly by Mosadeq's meeting with extreme nationalist group. I emphasized need for secrecy on this point.

When I asked his advice on the best way to arrange opening of Iranian-British negotiations, he thought up all kinds of conditions on which his government would insist, such as *status quo* according to court decision, advance commitment that Jackson's terms be accepted, etc. I told him bluntly he then might as well forget about the oil business. I pointed out Iranians had dropped insistence of 9-point law, and had accepted without contradiction my statements that this was the way Iranians felt and said they blamed the oil company and financial terms could not exceed those in other oil producing countries. I emphasized the particular concern of Iranians was to make sure that Iranian National Oil Company should control general policies but I told him I had insisted that day-to-day operations must be left to operating company under the agreed upon policies.

I told him in general terms Iranians felt rightly or wrongly that oil company had in the past interfered in internal politics. He agreed that this was the way Iranians felt and said they blamed the oil company for all ills of country.

I agreed, however, to take up with Oil Commission the question of relieving tension in oil fields and Abadan and suggested that then he himself could discuss detailed British complaints.

I maintained that the quicker British representative came to Tehran the better and that in my view was the only way to reach satisfactory solution.

If attempts were made for prior commitments, there would be endless sparring, whereas with the improving atmosphere here for quick solution, favorable results might be achieved through direct discussions. He made no comment to my statement that the visit of Cabinet Minister was in my opinion the only real way to reestablish favorable relations, and obtain quickest action.

I hope that Washington and London will urge British in strongest terms to withhold action pending developments here, which are moving rapidly.[3] . . .

[HARRIMAN]

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[3] This telegram was received at 2:13 p. m. At 10 p. m. the Department of State cabled Gifford asking that he see Morrison and urge him to accept the recommendations set forth in this telegram. Gifford was also informed that the same request was being made of Franks. (Telegram 511 to London; 888.2553/7-2251) On the following day Gifford reported that the British Cabinet had agreed to postpone any statement on Iran at least for 24 hours. (Telegram 428 from London; 888.2553/7-2351)

No. 51

888.2553/7-2351: Telegram

The Special Assistant to the President (Harriman) to the Department of State[1]

TOP SECRET PRIORITY TEHRAN, July 23, 1951—11 a. m.

324. From Harriman for the President and Secretary. No distribution except as directed by Secretary's office. I met (Sunday afternoon[2]) with representatives of Mixed Oil Commission and Ministers of Finance and Roads. They had just come from meeting with Prime Minister and handed me draft of statement indicating conditions under which talks with British would be held. Draft, after amendments made during course of our meeting, said that on the assumption British Government recognizes nationalization of oil industry in Iran, Iranian Government wld be disposed start talks with delegates of British Government acting on behalf former AIOC, and to discuss other matters of mutual interest between two governments.

I pointed out while I believed British Government would be willing to accept principle of nationalization, as I had previously said, proposed statement would appear require them to go considerably beyond that and might be interpreted as meaning British had accepted Iranian nationalization laws. Iran representatives said this was not intention but that while they could not include wording which implied they were repudiating nine-point law, they were not asking British to accept it. In their earlier discussions with their colleagues and the Prime Minister, however, it was the view that stating "the principle of nationalization" might be interpreted as

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[1] Repeated to London eyes only for the Ambassador.

[2] July 22.

"some form of nationalization". This they maintained public opinion would not permit them to accept.

As they could suggest no alternative wording which would meet Iranians' objective and at same time give promise of British acceptance, I stood on the position I had taken yesterday, namely "the principle of nationalization". Iranian representatives agreed to discuss the matter with their colleagues and let me know their decision tomorrow afternoon.

My impression based upon private remarks by several members is that the group did not in fact expect that statement as drafted would be considered by me acceptable to British, but that it was presented for trial purposes to placate more rigid elements in commission. I am hopeful that matter will now be decided along lines which I think should be acceptable.

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In discussion Iranians agreed that first subject for discussion with British should be agreement on *modus vivendi* to get oil moving and to accomplish this they recognized that they would have to deal with the operating organization.

I raised question of relieving tension and improving morale of British personnel. After discussion they felt best way was to come to quick conclusion on inviting talks with British and then they could discuss with British Ambassador practical steps to relieve tension.[3]

[HARRIMAN]

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[3] Harriman's message was received in the Department of State at 9:32 a. m. on July 23. At 7 p. m. the Department of State cabled Gifford, stating that the talks in Tehran had reached the crucial stage and that it was essential that the British take no action which might aggravate the situation. Gifford was instructed to approach the Foreign Office along these lines, if he felt it was necessary, and persuade the British to delay further the announcement of the withdrawal of the technicians. (Telegram 531 to London; 888.2553/7–2351)

No. 52

888.2553/7-2451: Telegram

The Special Assistant to the President (Harriman) to the Department of State[1]

TOP SECRET NIACT TEHRAN, July 24, 1951—11 a. m.

340. From Harriman for the President and Secretary. No distribution except as directed by the Secretary's office. Iranian Cabinet met most of Monday over questions which Oil Committee discussed with me on Sunday and reported in my telegram 324 of July 23.[2] Finance Minister and representatives of Oil Committee met with me late Monday afternoon.[3] They reported to me Cabinet had agreed to inclusion of the word "principle" and gave me draft of formula for meeting with British as follows: "In case the British Govt on behalf of the former Anglo-Iranian Oil Company recognizes the principle of nationalization of the oil industry in Iran, the Iranian Govt would be prepared to enter into negotiations with the representatives of the British Govt on behalf of the former company."

They explained omission of reference to discussion of any other matters of mutual interests referred to in my above telegram was only because Oil Committee had no competence in anything except oil but that govt would, of course, be ready to discuss any such matters. They then said in order that I might be fully informed of attitude of Iranian Govt and Cabinet had decided that I should be given translation of minute of meeting at which above decision was made and approved by entire Cabinet and Oil Committee.

This minute, in addition to setting forth as point (1) the above quoted statement, included the following points: (2) before sending representatives to Tehran British Govt should make formal statement of its consent to principle of nationalization of oil industry on behalf of former oil company, and (3) by the principle of nationalization of oil industry is meant proposal which was approved by special Oil Committee of Majlis and confirmed by law of March 20, text of which proposal is: "In the name of the prosperity of Iranian nation and with view to helping secure world peace we, the undersigned, propose that oil industry of Iran be declared as nationalized throughout all regions of country without exception, that is to say all operations for exploration, extraction and exploitation shall be in the hands of the government."

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[1] Repeated to London eyes only for the Ambassador.

[2] *Supra.*

[3] The meeting took place at 6:30 p. m., July 23. At the same time Levy and Howe met with Hassibi to discuss the world oil situation in the event that Iranian oil were not available. A memorandum of their conversation is in file 888.2553/10-1051.

Continuing under (3) minutes said: "In this connection for Mr. Harriman's further info, copy of note which representatives of former oil company submitted to Iranian Government on their methods of accepting principle of nationalization of oil industry, which note was not acceptable, is enclosed (Jackson's proposal[4])."

They explain that only formula in first para above was intended to be formally communicated to British, and that points (2) and (3) were being communicated to me only in order that I might know the basis for their conclusion.

I told them that I would of course have to inform British Government of this minute which they had given me and that I was sure as it stood it would make proposal under point (1) unacceptable to British Government without likewise making qualification on its part. I explained British Government could not be expected to accept by implication this law without clear understanding of its interpretation. I emphasized difference between acceptance of principle of nationalization and acceptance of law. They stated they were only referring to first law and not to nine-point law and to them first law merely established principle of nationalization. I said, for example, that phrase "in the hands of the Government" could be implemented in number of different ways and British Government obviously could not agree in advance of negotiation upon manner of carrying it out. I said further that they had led me to believe they were prepared to consider foreign-owned company to act as agent for Iran National Oil Company in conducting operations in Iran and asked whether this was within their interpretation of the above language. They replied "the hands of" might equally well be translated "under authority of" and, therefore, such an arrangement they considered would be possible. They emphasized that Jackson's proposal was objectionable because they considered it was AIOC "appearing with different face".

All Iranian officials, even those considered most friendly to British, are determined Government should have sufficient control over operations so as to avoid political activities in which they contend company has historically engaged. I pointed out to them that I had consistently maintained this subject was one which they could not discuss with me but had to work out in their negotiations with British.

Returning to their proposal they suggested I pass it on to British and obtain from British Government its reaction questions or comments. I declined to do this on grounds it would lead to endless communications on subjects which should be matters for negotiation after British had come to Tehran, and also that this would place me in position of mediator which I was unwilling to assume. After considerable discussion I said I would be prepared to do following:

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[4] See Document 29.

(a) Advise British Government of Iranian Government's formula for arranging meeting with British as quoted in first paragraph above.

(b) Inform British Government of Cabinet minute which, because of manner in which it was being transmitted, would in no sense bind British should they agree to make statement recognizing principle of nationalization on behalf of AIOC.

(c) In connection with third point of Cabinet minute I must be authorized to advise British Government that "Iranian Government is prepared to negotiate the manner in which the law will be carried out insofar as it affects British interests".

The Committee agreed to (a) and (b) but pointed out they could not speak for government regarding (c). This matter was subsequently discussed at Cabinet meeting and I have been advised by Minister Busheri that government has now authorized me to make statement contained in (c).

Throughout our discussions representatives of Iran Government have frequently stated they believed if member of British Government came to Tehran with good-will and understanding of national aspirations of Iranian peoples settlement could be found satisfactory to both sides. This was reiterated several times at our last meeting. I believe this is so, provided British Minister approaches negotiations with flexible point of view and is prepared to take into account very strong public emotion which is roused throughout the country.

In opinion of all Americans here and responsible Iranians with whom I have talked, any Iranian Government, whether it be that of Mosadeq or someone else, cannot run counter to this emotion. Levy and I have consistently made it plain that Iranian Government could not expect to obtain financial return greater than that of other countries under comparable conditions. We have also made it plain that the operation in Iran must be run on an efficient basis and this could only be accomplished through foreign-owned company operating with freedom in day to day management though acting under policy principles established by government or National Oil Company.

The question that appears to give Iranians greatest concern is how they can prevent AIOC from returning under different guise and operating politically in manner in which they maintain has been the case in the past; also, manner in which arrangements could be worked out and not give appearance of setting aside nationalization law. I believe they recognize that they cannot conduct operations but want access to all information and supervision beyond board membership as was set forth in Jackson's proposal. They also want training of Iranians for increasingly important administrative and technical positions as they qualify.

I believe they now understand they are dependent upon AIOC for shipping and marketing. If British agree to negotiations I believe it would be well for them to be prepared to include, if company to operate within Iran, certain interests in addition to AIOC, such as Shell or AIOC affiliates in other countries. I am in no sense suggesting inclusion of any American interests.

It is my impression that atmosphere exists in Tehran today in which British can make satisfactory settlement and I doubt whether as favorable situation will present itself again. With all of the increasing difficulties and grave dangers involved in delay, I believe the sooner member of British Government with appropriate advisers, including representative of AIOC, comes to Tehran the better it will be. Although this proposal will not be all that British would like I strongly recommend that it be accepted if at all possible.[5]

In phrasing the proposal Iranians obviously had in mind the last paragraph of British Ambassador's *aide-mémoire* of May 24[6] to Foreign Minister suggesting sending of government mission to Tehran headed by member of government. I am informing British Ambassador here early Tuesday morning. I recommend that you discuss matter fully with Franks in Washington and instruct Gifford to discuss it with British, urging them to accept.[7]

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[5] At 1 p. m. Harriman transmitted the following:

"I omitted from my telegram earlier today reference to discussions with mixed oil committee regarding ICJ decision. Up to this time Brit have stuck to the court's decision, which I have pointed out to Iranians, while Iran Government has rejected that decision and has strictly adhered to nine-point nationalization law. It has been with considerable difficulty that Iranians have been persuaded not to insist upon nine-point law as basis for discussions with British and it is obviously equally important that the British not interject the ICJ court's decision in their reply to Iran Government's offer of discussions. This does not mean, of course, that either side has repudiated its position if no settlement is reached in negotiations." (Telegram 347; 888.2553/7-2451)

[6] Presumably Harriman is referring to the *aide-mémoire* of May 19; see footnote 4, Document 21.

[7] At 7 p. m., July 24, the Department of State cabled Gifford and asked him to communicate the substance of this telegram to Morrison and urge him "as forcefully as possible" to accept the Iranian proposal. Gifford was informed further that this seemed likely to be the best offer and that the Department of State was taking similar action with Ambassador Franks. (Telegram 562; 888.2553/7-2451)

Although it is better psychologically for me not to leave here, I am prepared to go to London on short notice if it is considered advisable.

[HARRIMAN]

No. 53

888.2553/7-2451: Telegram

The Special Assistant to the President (Harriman) to the Department of State[1]

TOP SECRET PRIORITY TEHRAN, July 24, 1951—3 p. m.

352. From Harriman for the President and Secretary. No distribution except as directed by Secretary's office. I gave the British Ambassador this morning formula for meeting as proposed by Iranian Government and translation of Iranian Cabinet minute; also my language of (a), (b), and (c) included in mytel 340,[2] which Iranian Government has authorized me to pass on to British Government. In addition, I went over with him the substance of all of matters included in my telegram referred to above and supplementary telegram referring to Court decision.[3]

He said that he thought his government might well wish to have included "and to discuss matters of mutual interest to two governments". I told him I felt sure Iranian Government would agree. He thought his government would question the language "on behalf of the AIOC". He pointed out "the lesser (AIOC) was included in the greater (British Government)". I explained the significance I thought the Iranians attached to this was on account of their prior position that dispute was with oil company and not British Government. He said this was no time to take legalistic position. I also told him that I felt sure Iranian Government would interpret my use of the word "law" in (c) as abbreviation for language of third point of Cabinet minute: "The proposal which was approved by Special Oil Committee of Majlis and was confirmed by law of March 20", the text of which was quoted.

He appeared to agree when I said that present atmosphere was more favorable to satisfactory settlement than was likely to exist again.

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[1] Repeated to London eyes only for the Ambassador.

[2] *Supra.*

[3] Not printed, but see footnote 5, *supra.*

He responded to my explanation of Iranian worry about alleged AIOC political activities by saying that this could be worked put between governments.

I emphasized importance to Iranians that AIOC cld not appear to be returning only in a different form. His first response was that in fact if not form this was inevitable. I said that in my opinion a change of both form and substance was necessary; that on form use of language conforming as far as possible to Iranian public sensibilities was particularly important; and that on substance British should negot with flexibility, bearing in mind necessity of efficient operations but recognizing that Iranians must have more participation in policy principles than contemplated by Jackson proposal for several directors in operating company.

He showed particular interest in what Levy and I had constantly told the Iranians regarding essentials which they would have to accept as basis for arrangement and asked if Iranians had accepted these. I told him I could not give a definite answer but pointed out that Iranians were asking for meeting even though they know clearly my position and had frequently stated that if the British mission came to Tehran, they were hopeful a solution could be negotiated.

When I told him I was prepared to go to London if advisable, he agreed there would be a "psychological let-down" if I left here.

He said he would get all of the above off to London. Although his general attitude appeared to be receptive, I obtained no clue as to what his recommendations will be regarding British reply.

I hope Gifford, without awaiting instrs from Washington, will now inform British that he is prepared to discuss Iranian proposal with them after they have received message from their Ambassador here and hope they will not formulate reply before he had had opportunity to discuss it fully with them. I suggest Gifford urge British reply in form and spirit which Iranians can accept and be conducive to most friendly atmosphere for negotiations on arrival British mission.

[HARRIMAN]

No. 54

888.2553/7-2551: Telegram

The Special Assistant to the President (Harriman) to the Department of State[1]

TOP SECRET PRIORITY TEHRAN, July 25, 1951—4 p. m.

380. From Harriman for the President and Secretary. No distribution except as directed by the Secretary's office. I am naturally concerned over two subjects. First, whether British Government fully understands disastrous consequences of failure to accept in friendly manner gesture of Iranian Government contained in proposal for negotiations through government mission and whether British will not try to spar on conditions which I believe will get them nowhere and will destroy atmosphere essential to successful negotiations.

British shld realize extent Iranian Government has retreated from previous rigid positions: (a) Non-insistence on prior acceptance of nine point nationalization law; (b) Readiness to negotiate manner in which first general nationalization law of March 20 is to be carried out; (c) Agreement to negotiate with British Government instead of oil company although insisting that such negotiation be on behalf of company; (d) Apparent readiness to negotiate for foreign-owned company to operate within Iran as agent for National Oil Company; (e) Recognition of Iran's dependence upon good will of foreign companies for shipping and foreign outlets; (f) Readiness to negotiate after clear and repeated statement by me that government cannot expect greater income than other producing countries under comparable circumstances; and (g) Acceptance of principle that they must deal with AIOC in working out above arrangements in spite of widespread hatred and distrust of company.

I earnestly hope you and Gifford will continue to use maximum influence to prevent British from trying to settle any substantive question before Minister's arrival Tehran or to discredit Iranian Government before people by demands such as for returning management of oil operations to British before negotiation. Report coming to me from objective American newspaper correspondent recently returned from south is that, although morale of British is extremely low, this is due to discouragement that British Government has not taken direct action and to indignities of having Iranians "push them around." Incidents have been magnified by company officials whereas correspondent calls them to considerable extent "pin pricks to pride." It is difficult in Tehran to appraise charges and countercharges as between British and Iranians although there is no doubt that Iranian Government has acted unwisely to say the least, and extremists such as Makki have been arrogant and provocative.

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[1] Repeated to London eyes only for the Ambassador.

Secondly, if British agree to send mission, the selection of Minister to head it is of utmost importance. I can think of only two, Morrison or Gaitskell. . . . Some Iranian officials who knew Shawcross at UN speak well of him but I have had no direct dealings with Shawcross and therefore have no opinion. I feel perhaps Gaitskell wld be best man. On other hand Morrison has more prestige.

[HARRIMAN]

No. 55

888.2553/7-2551 Telegram

The Special Assistant to the President (Harriman) to the Department of State[1]

TOP SECRET PRIORITY TEHRAN, July 25, 1951—10 p. m.

382. From Harriman for the President and Secretary. No distribution except as directed by Secretary's office. Brit Amb gave me Tuesday afternoon[2] fol msg he had received from FonOff, dispatched prior to receipt of Iranian proposal submitted thru me:[3]

> "Public opinion in UK wld not tolerate visits of Min to Tehran in present circumstances unless there were solid grounds for believing Persians were acting in good faith and there are reasonable prospects of reaching settlement. We have no desire make unnecessary conditions, but we consider fol to be essential prerequisites before such mission shld be dispatched: (a) Company must be allowed resume operations under its own management and interference with its staff must cease; (b) there must be no attempt by devices such as new forms of tanker receipts to prejudice legal position of company while discussions continue; (c) must be understood mission wld negotiate with Persian Govt and not members of oil commission; (d) Persian Govt shld signify in advance their willingness to discuss oil question with mission without insisting on prior acceptance of terms of nationalization law (nine point law). If these conditions fulfilled we wld of course be prepared to agree that discussions shld be on basis of an acceptance of principle of nationalization."

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[1] Repeated to London eyes only for the Ambassador.

[2] July 24.

[3] See Document 52.

Brit Amb said points (c) and (d) were covered by proposal and (b) was not at present involved, which left point (a) at issue. I told him I cld not discuss point (a) with Iran Govt as I considered it subject for discussion after arrival of Brit mission with Iran Govt in seeking *modus vivendi.* I told him I had asked oil commission to take steps to relieve tension with Brit personnel in oil fields and Abadan, and that I planned to talk to Mosadeq to same effect at dinner that night.

He agreed point (a) wld raise Court decision and I gathered he was going to discuss informally with one of Senators on oil commission how relations cld be improved in south.

Much to my surprise, Busheri came to me in haste Wednesday afternoon while I was with Grady at Emb to say that Mosadeq had told him Brit Amb had handed FonMin four point answer of Brit Govt to Iran Govt's proposal, and had said I had seen it and approved Shepherd's giving it to FonMin. He said Iran Govt had assumed Brit answer wld come through me. He read me his pencilled notes of substance of msg and it was clearly the communication quoted above. I explained to Busheri that this was dispatched prior to receipt proposal and that I did not know Brit Amb was going to discuss it with Iran Govt before hearing from London on proposal, but thought he wld discuss only improvement of relations in south. I tried to reach Shepherd on telephone for explanation while Busheri was there, but call did not come thru until after Busheri had left. Shepherd said he had taken msg up with FonMin informally to get his reaction and had explained to FonMin that it was sent before proposal had reached London. He said he wld get in touch with Busheri as soon as possible and make this clear. When I questioned helpfulness of his having shown four point msg to FonMin, he answered that FonOff had asked him what was Iran Govt's reaction to msg, particularly on point (a).

I see no useful purpose in Brit Amb carrying on discussions with Iran Govt paralleling mine at this stage, particularly on points already covered by proposal submitted thru me. Such procedure may well destroy whatever usefulness my talks with Iran Govt may have been. I feel this shld be talked out frankly with FonOff.

[HARRIMAN]

No. 56

888.2553/7-2651: Telegram

The Ambassador in the United Kingdom (Gifford) to the Embassy in Iran[1]

TOP SECRET NIACT LONDON, July 26, 1951—9 p. m.

29. For Harriman. Eyes only Grady and Harriman. I am just informed of Cabinet action. It is disappointing but perhaps not hopeless. Instructions have gone to Shepherd which he is to discuss with you before making any approach to Iran Govt. The instructions include a note for Iran Govt which in its opening conforms to substance of draft quoted first paragraph my 28 (rptd Dept 501) yesterday.[2] However, Morrison feared, Cabinet insisted on some action on interference with British personnel before sending minister; moreover, it seems to me Cabinet went dangerously further in also saying sending minister cld not be done while company's operations being interfered with. Also, Shepherd is instructed to make clear that UK cannot accept position under which the whole of the company's operations have been brought to a standstill and I understand that Brit note wld say that UK wld expect Iran Govt to send instructions to their authorities in the sense that interference with company's operations and restrictions with staff both be discontinued. I protested vigorously that this sounded like the ICJ decision allowing company resume operations as before and thought it might well be disastrous. I was told that it is deliberate that no criteria were set forth as to what was meant or what would be needed to meet British wishes in this matter of company's operations. (Shepherd's instructions do not in fact make any mention of ICJ ruling.)

On the whole, I concluded that the British wld like to see some concrete action in Khudistan that would show Iran is sincere in trying to work out deal with them. Shepherd will explain that earnest of Iranian good will wld be withdrawal of Makki and other trouble makers. It is important in showing that British hope negotiations will take place that Shepherd and Brit Consul General Khorramshahr have been instructed to try to persuade staff to stay on for present in spite of difficulties.

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[1] Repeated to the Department as 543 eyes only for Secretary Acheson; the source text is the copy in Department of State files.

[2] In telegram 28 Gifford reported that he and Morrison had considered a reply along the following lines:

"The Brit Govt recognizes the principle of nationalization of oil industry in Iran and having been informed of Mr. Harriman's discussions with Iranian auths is prepared to send Blank to enter into negots with Iranian Govt on behalf of AIOC and to discuss matters of mutual interest to the two govts."

Morrison told Gifford that the greatest difficulty would arise in the Cabinet meeting over the problem of interference with British personnel and indicated that he would recommend Gaitskell or Stokes as the Minister to go to Iran. (888.2553/7-2551)

Morrison wished me to convey to you his great appreciation of what you have done and are doing. I urged in conclusion that speed was of the essence as I thought that favorable situation in Iran which you had created wld tend to degenerate with delay. No public statement is to be made by British today and there is no decision on when one will be made.[3]

GIFFORD

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[3] This telegram was received in the Department of State at 7:35 p. m. At 11 p. m. the Department of State cabled Harriman that the British response had caused "deep concern." Since the principal British concern was physical interference with the oil operations, McGhee stressed to Ambassador Entezam, in a conversation on July 25, the importance of stopping such interference, and was awaiting Harriman's views on whether anything further could be done to obtain Iranian concurrence without demanding additional formal concessions from Tehran. (Telegram 211 to Tehran; 888.2553/7-2551) A memorandum of McGhee's conversation with Entezam is in file 788.00/7-2551.

No. 57

888.2553/7-2751: Telegram

The Special Assistant to the President (Harriman) to the Department of State[1]

TOP SECRET NIACT TEHRAN, July 27, 1951—8 a. m.

397. From Harriman for President and Secretary; distribution only as directed by Secretary's office. For the last two days Brit Amb has been telling Iran officials that Brit Govt will not consider Iran Govt's proposal unless Iran first agree to court decision or *status quo,* along lines of his statement to FonMin reported mytel to Dept 382, London 74 July 25.[2] In accordance with my suggestion few days ago, the Shah also received him Thursday.

I have succeeded so far in inducing Mosadeq to disregard these statements until hearing officially from London, as otherwise he wld have made aggressive statement to Majlis making more difficult if not impossible Brit acceptance of proposal.

Thursday[3] evening Rountree called on Shepherd who reiterated these two alternatives. When Rountree pointed out political impossibility of these steps, and that if he continued insistence upon them the only result wld be Iran insistence on prior acceptance of 9 point law, Amb said that he cld not recommend Brit Govt acceptance of proposal, at least until tension was relieved in south. He minimized grave consequences of another impasse.

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[1] Repeated to London eyes only for the Ambassador.

[2] Document 55.

[3] July 26.

Earlier Thursday afternoon I saw oil comm with FinMin and Busheri to ask them to take appropriate steps to relieve tension. As Brit Amb had spoken to one of senators along lines stated in first para above, they were indignant and not in mood to make further gesture until Brit reply was known. They said that tension wld automatically be relieved if favorable response was received from Brit. At my earnest request, however, they discussed several ways this might be done at once and decided the only practical and political possibility was to ask Mosadeq to send msg to Abadan requesting Irans to make every effort to create more friendly atmosphere. They agreed to discuss matter with Mosadeq Thurs night.

In the frame of mind that Mosadeq is in as result of Brit Amb's conversations, all of which have been reported to him, I am not too optimistic as to Mosadeq's reaction.

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[HARRIMAN]

No. 58

888.2553/7–2751: Telegram

The Special Assistant to the President (Harriman) to the Department of State[1]

TOP SECRET NIACT TEHRAN, July 27, 1951—4 p. m.

404. From Harriman for the President and Secretary. No distribution except as directed by the Secretary's office. British Ambassador and I have discussed his instructions received this morning along lines of Gifford's telegram (29 to Tehran, 543 to Dept[2]). We

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[1] Repeated to London eyes only for the Ambassador.

[2] Document 56. In telegram 546 from London, July 27, Gifford transmitted the following text of the note which Shepherd was to deliver to the Iranian Government:

"His Majesty's Govt have recd from Mr. Harriman proposals for negots between HMG and the Persian Govt re the dispute between the Persian Govt and the AIOC and for discussion of matters of mutual interest to the two govts. HMG are glad to avail themselves of this invitation. They recognize the principle of nationalization of the oil industry in Persia.

"HMG are prepared to send to Tehran an official mission headed by a Minister for the purpose of these negots. It will be appreciated by the Persian Govt, however,

Continued

both agree that these instructions both in substance and more particularly in form, if presented to Iran Government, would cause breakdown in negotiations. Among other points, for example, Iran Govt would read wording of ending of "interference with company's operations" as requiring prior acceptance of court decision or return to *status quo* as set up by Ambassador under point (1) of four point message despatched prior to receipt proposal.[3] British Ambassador and I agreed that it was difficult in reasonable time to get his instructions changed through tel communication and that best course was for two of us to leave tonight for London. Middleton, British Counsellor, was also present and he made some suggestions as to ways Commission might possibly meet situation from standpoint of both govts. I am hopeful that in personal talks with British Ministers with Shepherd present a practical solution might be worked out acceptable to British Govt and at same time possible of acceptance here.

I am sure it is necessary to bring with me either British Ambassador or Counsellor Middleton in order that we can present combined views. . . .

British Ambassador is asking London urgently for permission to return with me. We agreed press statement from here would be to effect that British Govt is considering Iran proposal and has asked for clarification on some matters which can be made more clear by personal discussions than by telegram. I am making a commitment to Iran Govt that I will return in order to avoid concern here. I will tell press I plan to be back Monday for large dinner including Majlis members being given for me by Iran Govt that evening. I think it important psychologically for me to keep this engagement.

We should arrive London Heathrow Airport about 10 a. m. Saturday.[4] I request Gifford arrange meetings as he sees fit and am counting on his advice and help. I particularly want to see Morrison, Attlee and Gaitskell and anyone else British desire. I will be accompanied by Mrs. Harriman, Rountree, General Landy, Colonel Walters and Levy.

[HARRIMAN]

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that this cannot be done while the company's operations continue to be interfered with and the company's management and staff continue to be subjected to vexations and restrictions on their normal activities. Therefore, before HMG can consider the despatch of the mission they must request that the Persian Govt shld send instructions to the competent auths to ensure that the present interference with the company's operations and the present vexations to the company's staff are discontinued." (888.2553/7-2751)

[3] See Document 55.

[4] July 28.

No. 59

888.2553/7-2751: Telegram

The Special Assistant to the President (Harriman) to the Department of State[1]

TOP SECRET PRIORITY TEHRAN, July 27, 1951—11 p. m.

407. From Harriman for the President and Secretary. No distribution except as directed by the Secretary's office. In my mtgs this afternoon with Shah and Mosadeq they both cordially received idea of my going to London upon my explanation that British Govt had questions concerning Iranian proposal which cld best be answered in personal conversations.

Shah asked me to tell Prime Minister Attlee that he earnestly hoped British wld not find it necessary to impose conditions in acceptance, as he is confident solution can be worked out after arrival of mission. He said conditions might make it impossible for Iranian Govt to accede and wld result in changed atmosphere here. He stated again Mosadeq was only man who cld make reasonable deal with British and said he (Shah) wld use his influence to that end. He urged me to stay during negotiations.

My talk with Mosadeq was most friendly and personal one we have had. He agreed it was wise for him to make as few public statements as possible regarding Iranian Govt proposal, although he said he wld have to give confidential report in general terms to Majlis tomorrow (Saturday) as report already had been put off days. I re-emphasized importance of Iranian Govt doing its part in relieving tension in South.[2]

[HARRIMAN]

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[1] Repeated to London eyes only for the Ambassador.

[2] A more extensive record of Harriman's conversation with Mosadeq is in a memorandum of conversation by Walters, July 27. (888.2553/10-1051)

No. 60

888.2553/7-2851: Telegram

The Special Assistant to the President (Harriman) to the Embassy in Iran[1]

TOP SECRET NIACT LONDON, July 28, 1951—9 p. m.

33. Eyes only for Ambassador Grady from Harriman. I met with PriMin, FonSecy and number of members of Cabinet this afternoon accompanied by Gifford. They expressed their desire to accept Iranian Govt's proposals but are faced with difficult problem of Brit public opinion here and morale of Brit personnel in south. I hope Iranian Govt will recognize their position in a friendly spirit.

I am authorized to deliver the following as Brit reply if Iranian Govt will make favorable response:

> "HMG have received from Mr. Harriman the Persian Govt's proposals[2] for negotiation between HMG, on behalf of the Anglo-Iranian Oil Company, and the Persian Govt, and for discussions of matters of mutual interest to the two govts.
>
> HMG are desirous of availing themselves of this invitation but it will be appreciated by the Persian Govt that the negotiations, which HMG for their part will enter into with the utmost goodwill, can be conducted in a satisfactory manner only if the present tension which exists in the south is relieved. On the assurance that the Persian Govt recognize this fact and will enter into discussions in the same spirit, a mission headed by a cabinet minister will immediately set out.
>
> HMG recognize on their own behalf, and on that of the company, the principle of the nationalization of the oil industry in Persia."

Brit have asked that foregoing be communicated to PriMin Mossadeq and that he be advised that if it is accepted by him, Brit mission will depart within 24 hours.

I would appreciate your taking this up with Mossadeq at earliest possible moment and that in your discussion with him you state that I earnestly hope he will respond favorably. It is of utmost importance that answer be received by me in London by Sunday night.

You will know best how to deal with him, but you may wish to suggest brief answer along following lines:

"The Iranian Govt is pleased that Brit Govt is sending a mission to Iran in accordance with the proposal submitted through Mr. Harriman. The Iranian Govt recognizes the desirability of easing tension in the south, from the point of view of both govts and in the interest of the success of the negotiations, which the Iranian Govt will enter into in the same spirit of goodwill expressed by the Brit Govt."

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[1] The source text is the copy repeated to the Department as 581 for President Truman and Secretary Acheson.

[2] For the substance of these proposals, see Document 52.

If for any reason you run into difficulties with Mossadeq, please keep matter open and use best efforts to persuade him to make no statements which would prejudice my further efforts here.

FYI only, I am sure you appreciate how far Brit have gone in above reply and that it would be extremely difficult for them to go further considering their problems here.

[HARRIMAN]

No. 61

888.2553/7-2951: Telegram

The Ambassador in Iran (Grady) to the Embassy in the United Kingdom[1]

TOP SECRET NIACT TEHRAN, July 29, 1951—1 p. m.

90. For Harriman and Gifford. Saw PriMin at 10:45 this morn and discussed with him fully content of London's 33 July 28.[2] He was most cordial and expressed his very great desire to have the oil question promptly settled. He understands that discussions and conditional reply of Brit to Iran Govt is matter of deep secrecy and Brit reply will only be submitted when there are assurances from him that it is acceptable. He made no difficulty about the wording and was agreeable to having in the Brit reply and Iran reply ref to importance of relieving present tensions which exist in south. He says there is no tension of serious nature there and he is perfectly willing under circumstances to agree that what tension exists shld be relieved in every way possible.

He has called the mixed comm and Cabinet for meeting at once and will give me more formal reply this evening or first thing tomorrow morn. In meantime, he authorized me to tell Mr. Harriman that he has no objection to proposed exchange of notes and their publication and will welcome the coming here of a mission headed by a Cabinet min of Brit Govt. However, he asked me to say to Mr. Harriman as his own views prior to meeting of mixed comm and Cabinet the fol: That he assumes Mr. Harriman has brought to the attn of Brit Govt and Brit understand and accept the minutes of Cabinet meeting which he read to Mr. Harriman on July 23 (ref Embtel 340 to Dept July 24 rptd London 65[3]) He read 3 points from document in his files:

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[1] The source text is the copy repeated to the Department as 424 for President Truman and Secretary Acheson.

[2] *Supra.*

1. Brit Govt must recognize on behalf of AIOC principle of nationalization of southern oil.
2. The Iran understanding and definition of "principle of nationalization" is that "discovery, extraction, exploitation of oil must be in hands of Iran Govt". He said the sale of this oil falls under pertinent article of the nine-point nationalization law.
3. Brit Govt must understand Iran Govt rejected Jackson's proposal and cld not accept any proposal along same lines.

He rptd several times that he assumes Mr. Harriman had informed Brit of foregoing so that Brit mission wld not come out to Iran and say they have only accepted their interpretation of "principle of nationalization". PriMin said he is quite willing accept Mr. Harriman's statement that Brit understand and accept above 3 points and does not require Brits to write anything to this effect in their formal reply to Iran Govt.

You may be sure I urged him not to put conditions as prerequisite of negots whether these are done directly or indirectly thru Mr. Harriman, but he insisted there was no use of Brit mission coming unless Iran position was clearly and definitely understood.[4]

Will wire at once any further word we get from Mosadeq.[5]

GRADY

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[3] Document 52.

[4] A more extensive record of Grady's conversation with Mosadeq was transmitted as an enclosure to despatch 131, July 30. (888.2553/7-3051)

[5] At 11 p. m. on July 29 Grady cabled London the following Iranian Government reply which had been handed to him by Mosadeq at 9:40 that evening:

"The Imperial Govt of Iran is pleased to note that in accordance with the formula dated Monday July 23, 1951 (Tirmah 31, 1330) which was submitted to His Excellency Averell Harriman, his Britannic Majesty's Govt on its own behalf and on behalf of the former oil company formally recognizes the principle of nationalization of the oil industry in Iran. The Iranian Govt expects that this formal recognition shld be openly brought to the knowledge of the public and it is pleased that the Brit Govt intends to send a mission to Tehran on behalf of the former oil company to negot with the govt and with the competent authorities, and at the same time to discuss with the Iran Govt the method of execution of the law insofar as it refers to the mutual interests of the two countries. The Iran Govt believes that no tension exists in Khuzistan and is sure that the formal recognition of the principle of nationalization of the oil industry will create a more favorable atmosphere in order that the negotiations referred to above may be conducted with a spirit of sincerity and good will." (Telegram 425 from Tehran; 888.2553/7-2951)

No. 62

888.2553/7-2951: Telegram

The Ambassador in the United Kingdom (Gifford) to the Embassy in Iran[1]

TOP SECRET LONDON, July 29, 1951—2 p. m.
PRIORITY NIACT

34. Eyes only for Grady. From Rountree. I am taking urtel 90, rptd Wash as 424[2] immed to Amb Harriman at Chequers where he is lunching with PriMin. In meantime fol comments relate to Mossadeq's statements regarding Brit acceptance of three points of Cab minute:

As indicated in Harriman's telegram July 24 from Tehran to Wash and London[3] setting forth Iran proposal, he was auth by Iran Govt to do the fol:

(a) Advise Brit Govt of Iran Govt's formula for arranging mtg as quoted in first para that tel;
(b) Inform Brit Govt of Cab minute which, because of manner in which it was being transmitted, wld in no sense bind Brit shld they agree to make statement principle of nationalization on behalf of AIOC;
(c) Advise Brit that "Iran Govt is prepared to negotiate manner in which law will be carried out insofar as it affects Brit interests".

In accordance this understanding Brit have been informed of Iran Govt minute and position, but have been told that minute is not binding upon them in relation to exact meaning of recognition of principle of nationalization. They also have been told Iran Govt prepared to negotiate manner in which law of March 20 will be carried out insofar as Brit interests affected.

Foregoing for use as needed pending Mr. Harriman's reply which will be telegraphed soonest.[4]

GIFFORD

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[1] Repeated to the Department as 582 eyes only for Secretary Acheson; the source text is the copy in the Department of State files.

[2] *Supra.*

[3] Document 52.

[4] At 5 p. m. on July 29 Harriman cabled Grady that he fully agreed with the substance of this telegram and that he could not agree to any change in the understanding between himself and the Iranian Government as outlined by Rountree. Subsequently, at 2 a. m. on July 30, after receiving the text of the Iranian draft reply (footnote 5, *supra*), Harriman again cabled Grady stating that he did not feel he could transmit the Iranian reply to the British since it was not responsive to the cordial reply proposed by the British, and informed Grady that he was returning to Tehran on July 31 to discuss the matter with the Iranians. (Telegrams 35 and 36 (repeated to Washington as 583 and 584) from London to Tehran; 888.2553/7-2951 and 7-3051)

No. 63

888.2553/7-3151: Telegram

The Special Assistant to the President (Harriman) to the Embassy in the United Kingdom[1]

TOP SECRET TEHRAN, July 31, 1951—midnight.
PRIORITY **NIACT**

99. Eyes only for Gifford. I have had talks today with Shah, Mosadeq and Busheri and the Cabinet has had long session. Mosadeq and Busheri came to dinner tonight to explain Persian Cabinet decision. I believe Iranian Govt wants to give cordial and responsive reply to the British but their principal difficulty has been to avoid public admission that they alone are to blame for existing tension. They have decided that it wld not be possible for them to give type of reply desired without some modification in British msg. Under the circumstances, they have indicated that if certain changes in the wording of British msg were made, they cld avoid qualifying phrases and conditions in the Iranian reply. If these changes are acceptable to British Govt the Iranian reply can be considered as official. Amended British msg follows:

"HMG have received through Mr. Harriman the Persian Govt's formula for negotiating between HMG, on behalf of the Anglo-Iranian Oil Co., and the Persian Govt's msg for discussion of matters of mutual interest to the two govts.

His Majesty's Govt are desirous of availing themselves of this formula and are prepared to negotiate in accordance with it, but it will be appreciated by the Persian Govt that the negotiations, which His Majesty's Govt for their part will enter into with the utmost good will, can not be conducted in satisfactory manner unless the present atmosphere is relieved. On the assurance that the Persian Govt recognize this fact and will enter into discussions in the same spirit, a mission head by Cabinet Minister will immediately set out.

HMG recognizes on their behalf, and on that of the company, the principle of the nationalization of the oil industry in Persia."

Iranian reply follows:

"The Iranian Govt is pleased that, in accordance with the formula submitted by Mr. Harriman, the British Govt has recognized on its own behalf and on that of the former company the principle of nationalization of the oil industry in Iran, and is sending mission to Iran to negotiate. The Iranian Govt recognizes the essentiality, in the interest of the success of the negotiations, of both govts creating the best possible atmosphere, and will enter into the negotiations in the same spirit of good will expressed by the British Govt."

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[1] The source text is the copy repeated to the Department as 458 for President Truman and Secretary Acheson.

You will note that Iranians prefer to use "formula" to "proposals" and "invitation" and also asked that the British indicate that they are ready to negotiate in accordance with formula. It seems to me that this is reasonable and is in fact what the British expect to do. Iranians put great emphasis on change of word "tension" to "atmosphere" and I have found them adamant on this point as result of their lengthy Cabinet discussions of matter during last few days. I have not been able to move them from this position. They considered *"only if"* as being harsh and unfriendly and prefer substitution as indicated. This change appears unimportant. My principal argument has been for inclusion of the words "in the south" or the substitution of "in Iran". Here is where they made the strongest objection under some qualifying language denying full responsibility for situation was put in their reply. They frankly pointed out that British Govt's msg as changed above clearly indicates British Govt is talking about conditions in Iran and this implication they are prepared to accept.

In Iranian reply the two previous objectionable points—reference to discussion of "the law" and denial of existence of tension—have been extenuated and its cordial tone wld appear more than to compensate for the modifications in British msg.

When I saw Shah he expressed earnest hope that British wld accept the above exchange of msgs as he feels strongly that arrival of British Minister will have important psychological effect here.

For my part I cannot state too strongly my judgment that further debate over the language of these msgs will prejudice atmosphere for negotiation of the important substantive questions when Stokes arrives. I therefore earnestly hope that British Govt will find it possible to accept without change the suggested msgs. In this case they can consider the exchange as final and arrange for the immediate departure of Stokes. I wld appreciate your taking the matter up with British Govt urgently, advising me soonest of their decision.

[HARRIMAN]

No. 64

888.2553/8-151: Telegram

The Ambassador in the United Kingdom (Gifford) to the Embassy in Iran[1]

TOP SECRET PRIORITY LONDON, August 1, 1951—2 p. m.

42. Eyes only for Harriman and Grady. Cabinet agreed this morning to exchange of messages as set forth your 99, repeated Dept 458[2] without any change in wording, provided that:

(a) By the "formula" was meant the language "in the case of the British Government, on behalf of the former AIOC, recognizing the principle of the nationalization of the oil industry in Persia, the Persian Government wld be prepared to enter into negotiations with representatives of the British Government, on behalf of the former company," which the UK wld be free to cite publicly;

(b) By the "principle of nationalization" was meant nationalization on the basis of the law of March 20;

(c) In the reference to the essentiality of creating best possible atmosphere the Iranians know that British mean the need for relaxation of tension in the south.

The Cabinet is, of course, primarily concerned that the foregoing interpretations are those understood and accepted by the Iran Government. However, the Cabinet will accept your assurances on the foregoing points without further reference of them on your part to the Iran Government if you think this unnecessary, as it would in fact seem to me. The British Government will await your reply to foregoing before taking further step, but on receipt satisfactory reply from you will immediately send Stokes and publish exchange notes. Stokes will depart Thursday night and arrive Tehran Friday.[3]

Although official statements will be confined to notes, UK Government would expect be free give necessary guidance to press on lines (a), (b), and (c) above. Morrison has assured me this would be done as discretely as possible.

GIFFORD

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[1] The source text is the copy repeated to the Department as 648 for Secretary Acheson.

[2] *Supra.*

[3] On Aug. 2 Harriman cabled London that he had obtained the proper assurances from the Iranian Government with regard to the three British desiderata. (Telegram 103 from Tehran to London, repeated to Washington as 474; 888.2553/8-251) The exchange of notes then took place on Aug. 3.

No. 65

Editorial Note

The Stokes Mission, composed of Richard Stokes, Lord Privy Seal; representatives from the Foreign Office, Treasury, and Ministry of Fuel and Power; E. H. Elkington, a director of the AIOC; and four other Company officials, arrived in Tehran on August 4. Following brief conversations with the Shah and Mosadeq on August 5 (see telegram 531, *infra*), the British Delegation met with its Iranian counterpart on August 6 to begin the discussions on the oil dispute. The Iranian Delegation was led by Ali Varasteh, Minister of Finance, and included Minister of Education Sanjabi, Under-Secretary of Finance Hassibi, and four members of the Joint Parliamentary Oil Committee. During the course of the talks between the two delegations, the Harriman Mission remained at the disposal of both sides.

On August 13 Stokes submitted an eight-point proposal to the Iranian Delegation. This was rejected on August 18. With the talks apparently at an impasse, Harriman, on August 20, held the first of three meetings with Mosadeq and Stokes in an attempt to prevent the discussions from breaking down. Two further meetings on August 21 and 22 proved unsuccessful in breaking the deadlock and the Stokes Mission left Tehran for London on August 23, indicating that the talks had been suspended rather than broken off.

No. 66

888.2553/8-851: Telegram

The Special Assistant to the President (Harriman) to the Department of State[1]

TOP SECRET PRIORITY TEHRAN, August 8, 1951—2 p. m.

531. From Harriman for President and Secretary. No distribution except as directed by the Secretary's office. Following his arrival on Saturday, August 4, Stokes called on Mosadeq Sunday morning and had lunch with Shah. Mosadeq returned his call in the evening and dined with him. Stokes had his first meeting Monday afternoon with the group of Mixed Oil Commission and Ministers of Finance, Education and Communications.

I talked with Mosadeq after his second meeting with Stokes and he was in exceptionally good spirits. He said that he was pleased with the choice of Stokes to head British mission and liked him personally. I believe all Iranians with whom he has talked are favorably impressed with him.

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[1] Repeated to London eyes only for the Ambassador.

In their first talk, Mosadeq agreed with Stokes' suggestion that latter go to Abadan to get first hand information on situation there. Stokes was particularly anxious to make trip because of effect upon morale of British employees there. He asked me to accompany him and a representative of Iran Govt on trip Tuesday. For obvious political reasons we went in our own respective planes, Iran Govt representative travelling with me. I returned Tuesday afternoon, and Stokes party stayed over-night.

Iranians turned out substantial numbers of military personnel lining road from airport, with several truck loads accompanying party. Upon Makki's insistence Stokes and I were taken on tour of all classes of housing facilities at Abadan, with emphasis on slum area. Although slums are typical of Middle East they are shocking for housing of employees of large Western oil company. Refineries are completely shut down but all employees are still kept on payroll with little to do except for new construction work.

British have made very large investment in new power plant and modern refineries, some of which just completed, doubling capacity since my visit nine years ago. We had lunch with Makki, civilian Governor General and Commanding General [in] Khuzistan, Military Governor of Abadan and provisional administrator oil council. Altogether I spent several hours with Makki. He is fanatically obsessed with evils of British and oil company and has demagogic appeal to people. There were no demonstrations during visit. Makki told me the people had wanted to arrange a demonstration welcoming me, but he had thought it best to deny permission for any kind of demonstration. People in areas visited appeared entirely friendly.

British Consul General had evidently made provocative statement in presence of press the day before we arrived and this may cause unfortunate repercussions.[2] Four British destroyers which had just arrived were much in evidence lying across the river from Abadan.

Before leaving I talked with senior oil company officials at the refinery manager's house. Although morale of these men themselves appeared good, that of the junior staff is said to be at a low point.[3]

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[2] Later in the day Grady reported that the local press had printed an interview with Maj. Francis Capper, British Consul General, in which he reportedly said:

"One of conditions for reopening conversations with Iranian Govt is that Makki and Mazda who constitute two dangerous elements must leave Khuzistan and that provisional board directors must not intervene in petroleum affairs and lastly that goods confiscated from AIOC—houses, automobiles and so forth—be returned." (Telegram 536 from Tehran, Aug. 8, 5 p. m.; 888.2553/8–851)

Stokes' talks up to now have been of general nature and he has not yet put forward specific proposals. His second meeting with Mixed Oil Commission group and selected Ministers is scheduled for this afternoon.

[HARRIMAN]

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[3] For a different view of the visit to Abadan, see Norman Kemp, *Abadan: A First-hand Account of the Persian Oil Crisis* (London, 1953), pp. 192-197.

No. 67

888.2553/8-1251: Telegram

The Special Assistant to the President (Harriman) to the Department of State[1]

TOP SECRET PRIORITY TEHRAN, August 12, 1951—11 a. m.

589. Eyes only President and Secretary; distribution only as directed by Secretary's office. After consultation with London on general principles involved, Stokes has prepared for discussion with Iranian Government suggestion as to possible arrangement between British and Iranians. Plan was developed after detailed discussions with my staff, particularly with Levy on technical aspects.[2] I have refrained from giving it my approval, but have said that it appeared to provide good basis for discussion. I believe it essential, in order to maintain a neutral position at this time, to avoid impression that I have endorsed any particular plan. Covering memorandum and suggested plan follow:

[Here follows the text of the British memorandum and an eight-point attachment outlining the British proposal. Apparently this was an advance copy of the British proposal, since on August 13 Stokes presented a similar draft to the Iranian Delegation at the talks as a basis for discussion. For text of the draft presented on August 13, which is the same except for minor changes and the renumbering of paragraph 5 as paragraph 3, see British Cmd. 8425, pages 54-55 or *Documents* (R.I.I.A.) for 1951, pages 502-504.]

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[1] Repeated to London eyes only for the Ambassador.

[2] On Aug. 6 and 7 Levy met three times with members of the British Delegation and Ambassador Shepherd. At the first meeting he discussed various British proposals and ideas on the oil crisis. At the two meetings on Aug. 7, he asked the British Delegation to consider the possibility of a sales agreement among the previous AIOC customers as an answer to the oil question. Memoranda of these conversations, and of another conversation on Aug. 7 between Levy and Dr. Pirnia, Under Secretary in the Iranian Ministry of Finance, during which the idea of a sales agreement had been initially broached, are in files 888.2553/7-1651 and 888.2553/10-1051.

Stokes handed copy of foregoing to Bushehri this morning (Saturday[3]) with suggestion that he consider it and discuss it with Mosadeq, advising Stokes as to whether it should be presented to Mixed Oil Commission group and other Iranian Government negotiations at meeting scheduled late this afternoon. In subsequent conversation with me Bushehri mentioned three questions regarding first paragraph of attachment which had come to his mind, but said he wished to have document translated in order that he could study it more carefully and discuss it with Prime Minister. His questions related to (1) whether Iranian Government could agree to new arrangement extending beyond period of 11 years, i.e., end of the D'Arcy concession;[4] (2) with regard to compensation aspect of paragraph 1 of document, he stated that while equal sharing of profits might be reasonable if assets of company were turned over without compensation, he doubted that this would be satisfactory if compensation was included in cost. Moreover, he said that if compensation for assets is raised, Iranian Government would have substantial counterclaims; (3) regarding transfer of assets of Kermanshah Petroleum Corporation, arrangements were vague and would require clarification.

In commenting upon these questions I pointed out that it would appear to make good business sense to assure the sales arrangements for as long a period as possible, particularly since customers might, if period established is too short, seek alternative sources of supply to assure their ability to maintain steady flow to their markets over long term. In connection with compensation aspect, both as regards his points two and three, I said it was a matter to be worked out in detailed negotiations, but pointed out the value to Iranians of obtaining a guaranteed market and technical skills and that whatever figure was agreed to between them for compensation would be handled similarly to charges for depreciation.

Bushehri informed Stokes just before latter's meeting with Iranian Government delegation this afternoon that Mosadeq had asked that he be given time to study translation British document before it is handed to Iranian negotiators.

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[3] Aug. 11.

[4] See footnote 3, Document 216.

My guess is that Mosadeq will have vigorous objections to British suggestions, but I hope outright rejection can be avoided and detailed discussion of points objected to can be arranged.[5]

[HARRIMAN]

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[5] On Aug. 13 Harriman reported that Mosadeq's reaction to Stokes' proposal was unfavorable on three counts: (1) the Prime Minister refused to sell to one purchaser and proposed instead individual sales contracts with all customers; (2) he wanted NIOC to have a board of directors consisting of four Iranians and eight foreign neutrals and to have it employ the oil staff including the present British personnel; and (3) he wanted half of the profits to apply only to the British share of the sales and this half would include compensation for nationalized properties. Harriman commented that these counterproposals were "obviously unacceptable" to the British, especially the second, while the first offered no evident solution and the last was "untenable". (Telegram 601 from Tehran; 888.2553/8-1351)

No. 68

888.2553/8-1351: Telegram

The Special Assistant to the President (Harriman) to the Department of State[1]

TOP SECRET PRIORITY TEHRAN, August 13, 1951—9 a. m.

595. From Harriman for the President and Secretary. No distribution except as directed by the Secretary's office. In his recent meeting with Mosadeq and mixed oil commission group, Stokes has followed two general lines which have not strengthened his general position with Iranian Govt or contributed to improvement of atmosphere. He has proposed broad generalities which he has endeavored to get Iranians to accept in advance of detailed discussion, such as recognition by Iranian Govt that it cannot operate its oil industry without British assistance; that Britain and Iran must have "partnership" in operation of industry; that British operating staff will continue in Iran only if employed by British company, etc. Other line has been to set forth complaints re situation in south, with requests that Iranian Govt take specific measures such as withdrawal of Makki and removal of provisional administration oil commission from Abadan to Ahwaz, as well as other steps to improve morale of British employees.

I have urged Stokes not to expect Iranians, especially Mosadeq, to commit themselves on generalities which wld imply dependence upon Britain with consequent weakening of their bargaining position, or imply intention to negotiate arrangement which public might think may not be consistent with nationalization laws. I therefore suggested that such talks be ceased until he had specific suggested plan to put up to Iranians for discussion. I have also said that it wld be much better, insofar as possible, to delay specific demands regarding the situation in the south, since not only do they adversely affect atmosphere for discussions but real solution to problem depends upon working out through negotiation some arrangement with Iranians. I expressed view, for example, that it wld be unwise to insist that Mosadeq recall Makki to Tehran since this action itself wld build up Makki's prestige and his presence here wld create difficulties for negotiators. Shah has also told me that this is his opinion. Makki's reception and strong statement fol his recent return to Tehran, at direction of Mosadeq as gesture to British, has borne out this fear. Stokes has now asked London to play down Makki in BBC and press and has asked me to make similar suggestion to Washington.

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[1] Repeated to London, eyes only for the Ambassador.

Statement of British Consul General at Khorramshahr referred to in my telegram of Aug 8[2] has been subject of considerable press comment there, notwithstanding Stokes statement to press that his comments did not reflect position of British Govt. Busheri has told me that Iranian Govt is considering asking that he be recalled, but I hope this will not be done unless British persist in demands of their own. In this connection I was told by Stokes that he had recommended to London that Consul General be recalled voluntarily . . . but that Foreign Office has decided against this action.

Notwithstanding these recent developments, . . . general mood of Iranians continues to favor settlement of oil disputes, if satisfactory terms can be worked out.

Now that British have come up with specific suggestion (as outlined in my telegram August 12[3]) I hope that discussions can now be focused along more constructive channels.

[HARRIMAN]

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[2] Document 66.

[3] *Supra.*

No. 69

888.10/8–1351: Telegram

The Ambassador in Iran (Grady) to the Department of State

SECRET PRIORITY TEHRAN, August 13, 1951—noon.

596. From Grady and Harriman. Up to time of despatch Embtel 3397 June 22,[1] Embassy not only repeatedly (re Deptel 337 August 11[2]) maintained that bank loan available but not having been otherwise advised, continued to press for Iran acceptance. Fol Dept's subsequent instructions, Iran Govt was no longer pressed to accept loan, but it was not possible to advise Iran of any change in US attitude without involving considerable polit dangers. Iran Govt proceeded to seek Majlis approval at risk jeopardizing itself, and US failure to conclude loan within reasonable time wld be severe jolt not simply to Mosadeq Govt, but to our relations with Iran in general. This undoubtedly wld be regarded as lack of confidence in and concern for Iran's future which wld have deteriorating effect upon present situation, and wld be interpreted as exertion economic pressure in favor Brit. Moreover, it wld be regarded as indication dissatisfaction with Mosadeq Govt, upon which we act at present dependent for satisfactory oil settlement.

We are aware of Brit concern that conclusion of loan might undermine their efforts to settle oil controversy. On other hand, satisfactory oil settlement depends in large measure upon effectiveness of Amer influence, which wld be impaired by our refusal at this time to proceed with loan. Moreover, Brit shld understand that loan will not improve immediately financial situation of Iran Govt, but on the contrary, will require substantial internal financing which will not be possible unless oil revenues are resumed. First effects of loan cannot in any event be realized for many months after admin arrangements concluded and orders placed.

As to ability of Iran to service loan, we believe we must assume satisfactory settlement of oil dispute and resumption of oil revenues to Iran Govt. While there may be financial risks, political danger involved is such as to make it advisable to proceed without usual regard to strict banking criteria.

We believed, therefore, that US shld not indicate reluctance to make loan, and that arrangements should be concluded in due course. This does not mean laymen shld take initiative in expediting matters but that, for time being at least, we shld proceed as necessary to complete arrangements.[3]

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[1] Not printed.

[2] Telegram 337 asked Grady and Harriman for their views on the Export-Import Bank loan to Iran following its ratification by Iran. (888.10/8–1051)

In this connection Busheri has inquired on behalf of Iran Govt re most effective purchasing organization to be employed pursuant to loan agrmnt. He has mentioned two possibilities concerning which he has requested our comment, namely Amer Eastern and Chase National Bank. Wld appreciate views of Dept and Eximbank concerning employment these firms or other suggestions which we might offer as alternatives.

GRADY

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[3] On Aug. 16 the Embassy in London expressed its concern over the loan question indicating that it felt stalling would be the best procedure. If this were impossible, then the problem should be discussed frankly with the British prior to any substantive action. Since the Iranian dispute was the prime topic in the United Kingdom, the question of the loan could have serious repercussions on overall U.S.-U.K. relations. (Telegram 906; 888.10/8-1851)

No. 70

888.2553/8-1651: Telegram

The Special Assistant to the President (Harriman) to the Department of State[1]

TOP SECRET PRIORITY TEHRAN, August 16, 1951—1 p. m.

663. From Harriman for the President and Secretary. No distribution except as directed by Secretary's office. In meeting with Mosadeq Tuesday afternoon[2] referred to in mytel Aug 14,[3] Stokes took firm line with PriMin to effect Iranian negotiating committee must begin substantive discussions upon possible solution to problem which they thus far had not done, and said his mission could serve no useful purpose in Tehran if such negotiations were not undertaken. Arrangements were then made with Mosadeq for meeting between British and Iranian committee Wednesday morning for Iranians to hear British explanations of suggestions which they had made. Mosadeq did not mention three points reported mytel Aug 13[4] as being his reaction to proposal. Contrary statement in that telegram neither Mosadeq nor Busheri have informed Stokes of these points. Stokes feels that manner in which he took initia-

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[1] Repeated to London eyes only for the Ambassador.

[2] Aug. 14.

[3] Telegram 640 reported that Stokes presented his proposals to the Iranian Delegation and that Mosadeq asked Stokes to call on him on Tuesday afternoon. (888.2553/8-1451)

[4] See footnote 5, Document 67.

tive in talk precluded detailed discussion. Mosadeq did tell Stokes, however, that he did not consider British proposal to be consistent with nationalization law of March 20 to which Stokes reports he replied that he did not see how Mosadeq could come to this conclusion since he had had no explanation of proposals.

Meeting with Iranian committee Wednesday morning I am told that British explained in considerable detail their proposal. Iranians listened to these explanations and asked questions, but did not discuss any points, saying that they had to consult among themselves and with Cabinet before taking any position. It was agreed that they wld consider matter and meet again to inform British of their reaction. It was also agreed that British proposal as such would not be released to the press by either side since its rather legalistic form would lead to misinterpretations, but that both sides would be free to explain proposals in their own language.

While this meeting was in progress, Fatemi held press conference in which his comments were based upon assumption that Mosadeq had in fact informed Stokes of Iran's specific negative reaction to proposal. Fatemi also released text of British proposal contrary to understanding with Iranian delegation.

On Wednesday evening Stokes was host at dinner given for Iranian committee and members my mission. In this informal atmosphere I urged essentiality of frank discussions between Iranians and British of all problems related to issue and said that only in this way can we hope for satisfactory settlement. After dinner most Iranians told me individually they agreed.

I understand that Ala saw Mosadeq yesterday upon Shah's instructions to urge Govt to negotiate with British on all issues, rather than taking rigid position. As Friday is holiday, next meeting between British and Iranian committees is arranged for Saturday.

Stokes has asked me to make public statement or, alternatively, to talk with Iranian Govt giving my full support to British proposals. I have told him that I cannot do this at the present time for simple reason that proposals are of general nature and that they are subject to varying interpretations.

I am seeing Mosadeq this afternoon and will strongly urge him to carry out this agreement to negotiate emphasizing essentiality of frank exchange of views with British on points of difference. Such influence as I have here can best be exerted if the two parties come to specific issues.

My discussions with Iranians so far give me impression that a basic difficulty is their suspicion of British. They fear that British will continue interference in Iranian political affairs and have a feeling of insecurity in their own ability to prevent this.

[HARRIMAN]

No. 71

888.2553/8-1751: Telegram

The Special Assistant to the President (Harriman) to the Department of State[1]

TOP SECRET PRIORITY TEHRAN, August 17, 1951—10 a. m.

675. From Harriman for President and Secretary. No distribution except as directed by Secretary's office. Mosadeq called on me today (Thursday)[2] and I took occasion to emphasize essentiality of British and Iranian representatives engaging in discussions on completely frank basis without stenographic records. I mentioned success of this method in our own discussions. Mosadeq fully agreed desirability of this, but commented it would be difficult to work with British on same basis of frankness as Iranian had with us.

I said that British proposal[3] seemed to me to provide good basis for discussions, and that I felt arrangements could be worked out under it entirely consistent with formula under which British were invited to come to Iran.[4] To this Mosadeq disagreed and said that while he was prepared to accept concept of British purchasing organization which would sell to other countries he could under no circumstances agree to British-controlled agency operating within Iran. British proposal was in fact for a concession in disguise. He said moreover he could never sell this to Iranian people. I stated efficient operation of oil industry required foreign agency which could operate as instrument of NIOC, and felt sure that he could get Iranian people to accept a proper arrangement. I pointed out that foreign technicians could not be induced to accept employment directly with Iran Govt Corporation and reviewed some of the reasons for this. As Mosadeq remained adamant in his position and was complacent about disastrous effects of losing oil income, I said that before I left Iran I thought he should permit Levy to explain to his technicians why any agency is essential and that arrangements might be made by Iran Govt to control it and assure that it operates in fact in interest of Iran. Mosadeq accepted this but said that he would like Levy to talk with him directly. He asked that Levy call on him Friday afternoon to spend "two or three hours" discussing matter.

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[1] Repeated to London eyes only for the Ambassador.

[2] Aug. 16.

[3] Regarding the Stokes proposal, see Document 67.

[4] Regarding the "Harriman formula," see Document 52.

While Mosadeq's present position regarding purchasing organization is an advance, question of operating agency is major issue with him and may lead to an impasse.

I have informed Stokes personally and confidentially of Levy's proposed talk with Mosadeq. However, I suggest that this not be discussed with British either London or Washington.[5]

[HARRIMAN]

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[5] On Aug. 18 Harriman reported as follows on Levy's meeting with Mosadeq:

"In his meeting with Mosadeq Friday afternoon Levy outlined technical reasons why foreign organization was needed to conduct oil operations in Iran as agent NIOC, and reviewed arrangements in other countries which assured that operating agencies carry out their work in conformity agreements with govts. Talk was most friendly, and Mosadeq showed real interest in presentation and asked number of questions. Although he did not deny validity arguments presented, Mosadeq repeated that he cld not accept agency arrangement. Levy stated Brit proposal provided basis for negotiation of agreement which wld be fully within formula under which Brit mission came to Iran. The only basis upon which Mosadeq disputed this was that Iran cld not control agency, since 'the servant (meaning Brit) wld be bigger than the master'. Mosadeq again showed complacency at possible results loss of oil revenues." (Telegram 604 from Tehran; 888.2553/8-1851)

No. 72

888.2553/8-1951: Telegram

The Special Assistant to the President (Harriman) to the Department of State[1]

TOP SECRET PRIORITY TEHRAN, August 19, 1951—10 a. m.

705. From Harriman for President and Secretary. No distribution except as directed by Secretary's office. British met with Iran negotiating committee this afternoon (Saturday[2]) for an informal exchange of views regarding British proposal. I was asked to participate. Iran group had been released by Prime Minister to express their opinions. However, these generally conformed to position taken by Prime Minister. They maintained that proposal did not conform to formula submitted through me principally on point that British control of both purchasing organization and operating agency means return to *status quo* with thin disguise. Other objections were raised that as that purchasing organization would have

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[1] Repeated to London eyes only for the Ambassador.

[2] Aug. 18.

substantial monopoly of Iran exports, and that principle of 50-50 division of profit was inequitable, particularly if combined with payment for assets taken over. Such arrangements it was contended would not be acceptable to Iran public opinion. Stokes gave obvious replies explaining the commercial aspects of world oil business and necessity of creating arrangements which would induce British staff to remain in Iran. He was rather general in his comments on the control of operation by NIOC and also suggested that it was Iran politician problem to deal with their public opinion. Stokes stated he believed Irans would obtain under his proposal three times as much as they did in 1950. This would be about 50 million pounds on 1950 basis. He said he could not remain indefinitely and it was therefore agreed they would hold two meetings a day, the next one to be 10 a. m. tomorrow (Sunday).

At close of mtg I expressed my satisfaction that the two groups were at last talking informally and hoped that through this type of discussion an understanding could be reached. I stated I believed that the proposals put forward by British for discussion provided good basis for negotiation and that arrangements could be worked out under these proposals which would be within formula under which Brit mission had been asked to come to negotiate. In specific reply to some of Iran's comments I stated that I did not consider these proposals as disguise. British were negotiating in good faith and in my opinion proper safeguards could be agreed to which would protect Iran interests and establish appropriate control by NIOC. I said that Levy and I would be glad to discuss details of this with Iran group should they wish to do so and I had had similar informal talks with Stokes. In this manner Irans could get Levy's advice as to manner in which proper arrangements could be made in conformance to practical aspects of oil business.

Since Irans had talked of oil installations as Iran Govt property and had referred rather generally to compensation, I stated that I could not become involved in details of compensation but that I felt I shld state my govt's position on nationalization. We recognized right of any govt to nationalize fon-owned property providing either mutually satisfactory arrangements were worked out with previous owners or prompt and adequate compensation was made. We recognized right of nationalization but not right of confiscation. I said I felt sure that these principles were accepted by Iran group and that as there were not funds available to make adequate prompt compensation they would work out mutually satisfactory arrangements with British interests. After I finished Stokes sent me a note saying it was vital that I state Brit proposals had my full support and came within the formula. As I felt my position stated above was clear and as far as I should go at this time I made no further comment on this aspect. In my opinion arrangements under British proposal can be worked out to result in either camouflage for complete return of British control or adequate recognition of NIOC's right to appropriate control, safeguarding against practices which Irans objected to in past.

At close of meeting Irans handed Stokes written reply to his proposals. This was in Iranian language and I will not get translation until tomorrow morning. It was agreed that this reply wld be released at 9 p. m. Tehran time Sunday. After considering contents of Iran reply I will decide whether I should make statement to press and the form of such statement. My problem is that if I do not make a statement my silence will be interpreted by Irans that I do not consider Brit proposal conforms with formula. I am afraid that this will mean that they will make no genuine attempt to come to agreement and expect us to bail them out after break with British. On the other hand it is difficult to find language which will reasonably satisfy Brit and not give Irans impression that I have "sold out" to British.[3]

[HARRIMAN]

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[3] The Iranian reply rejected Stokes' proposal because it did not conform with the law nationalizing the Iranian oil industry, stating in particular that the points concerning the purchasing organization, the price of oil and the division of profits, the operating organization, and compensation were not satisfactory. Harriman transmitted a translation of the reply at noon on Aug. 19 in telegram 706. (888.2553/8-1951) For the complete text, see British Cmd. 8425, pp. 55–57 or *Documents* (R.I.I.A.) for 1951, pp. 504–506.

No. 73

888.2553/8-1951: Telegram

The Special Assistant to the President (Harriman) to the Department of State

TOP SECRET PRIORITY TEHRAN, August 19, 1951—7 p. m.

709. From Harriman to President and Secretary. No distribution except by direction of Secy's office. Fol is substance of remarks which I made at mtg between Brit mission and Iran negot comite this morning, as reported in my earlier tel today:[1]

"Prior arrival Brit del I repeatedly stated, and Levy explained in detail, that:

(a) Iran oil industry in order to be able to sell its oil in world markets, must make arrangements with large organization that cld make avail transport and distr for marketing Iran oil on world-wide basis. Iran cannot obtain higher income from its oil operation than other producing countries in comparable circumstances. Otherwise, company wld [not?] make such arrangements but wld buy or develop oil in other producing countries. Brit interests are only ones that are in position to market large quantities Iran oil.

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[1] *Supra.*

(b) Iran Govt, as it has stated itself, depends on fon technical assistance for operation its oil industry within Iran, and must have continuous access to ever advancing oil technology of world. I have constantly stated this technical assistance cannot be obtained thru employment individual technicians but that competent management org is required, working under contract for and on behalf of NIOC. This arrangement well known and accepted throughout world not only in oil industry but in other business relationships. Aside from Iran's need for management, technicians themselves wld not come to Iran or any other country except under arrangements satis to them. They are free men.

Brit proposals provide good basis for negot for fair settlement. They conform to formula, submitted thru me, under which Brit were asked to come to negot. Iran Govt in its reply has read into proposals concepts which were not intended. Brit proposals contemplated negots to work out specific arrangements under principles stated. Iran Govt has not so far undertaken such negots as was agreed in formula but rather has read into proposals certain conclusion re operations within Iran which were not contemplated by proposals and against which safeguards cld be worked out thru discussion and negot. Iran Govt has now submitted reply which ignores my previous statements and is contrary well known commercial methods of internatl supply and distr of oil.

US believes seizure by any govt of fon owned properties without either paying prompt adequate and eff compensation or working out new arrangements mutually satis to former owner and govt, is not nationalization, but confiscation. Iran Govt has made it clear it does not intend to confiscate, and I believe arrangements possible on basis Brit proposals which will permit Iran to realize its aspirations. Under such arrangement Iran wld control its oil industry within Iran and wld obtain very large income, as large as it's possible to receive, which has been est by Brit Min to be about 50 million pounds on basis 1950 operations. Income this magnitude wld make it possible for Iran promptly to carry out extensive development vast econ potential of country and thus improve health and welfare Iran people. US anxious assist in any way to these ends. Whole principle of US assistance however is to help other countries to help themselves.

Collapse these negots will lead to further misery to Iran people and leave them no hope of getting their conditions which they so justly expect and deserve. Pres Truman asked me come Iran to help work out fair arrangement and I have earnestly tried with all frankness to give impartial advice thru which controversy cld be settled in fair and equitable manner and thru which Iran cld obtain max possible income.

Publication of statement handed last night Brit del wld further confuse already much confused Iran public as to facts interntl oil business and real intent of Brit proposals. Earnestly hope publication this doc will be withheld and that it will be withdrawn or amended in such way as to permit negots on realistic basis. Its release wld compel me make public statement along lines of what I have said".[2]

If I am compelled to make public statement it will of course be more moderate in tone, leaving essentially intact substance remarks re commercial facts, confiscation and nationalization, and Brit proposals.

[HARRIMAN]

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[2] In his next telegram Harriman reported that the Iranian Government had decided to postpone the release of its reply to the press and that arrangements had been made to resume negotiations on Aug. 20 among Mosadeq, Stokes, and Harriman in lieu of discussions with the Iranian negotiating committee. (Telegram 710 from Tehran, Aug. 19, 7 p. m.; 888.2553/8-1951)

No. 74

888.2553/8-2251: Telegram

The Special Assistant to the President (Harriman) to the Department of State[1]

TOP SECRET PRIORITY TEHRAN, August 22, 1951—9 a. m.

736. From Harriman to President and Secretary. No distribution except by direction of Secretary's office. This morning (Tuesday[2]) in our talk with Mosadeq it appeared to Stokes and myself that there was little if any chance to come to a workable arrangement with him.[3] He stated that he wanted the Brit staff to continue working in Iran for NIOC just as they had before for the AIOC and then completely refused to accept any arrangement which wld make it possible for them to work. Stokes offered to abandon the proposal for an operating agency and to develop a plan by which the staff wld continue under a general manager reporting to and

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[1] Repeated to London eyes only for the Ambassador.

[2] Aug. 21.

[3] On Aug. 20 Mosadeq, Stokes, and Harriman had had their first conversation, discussing sales, compensation, and employment of the British staff. Mosadeq stated during the discussion that he would submit the British proposal to the Majlis if agreement was not reached and would ask for a vote of confidence. Harriman indicated that it was too early to judge whether there was a real chance for agreement or whether there was a way to prevent Mosadeq from using a break in the negotiations to strengthen his position in Iran. (Telegram 724 from Tehran; 888.2553/8-2051)

under the direction of NIOC. Mosadeq also refused this idea, repeating a suggestion he had made yesterday that some 20 section heads, all to be Brit, wld report directly to the Board of Directors. The Board of 12 members would consist of 4 Iranians and 8 oil experts selected from continental European countries. Stokes and I tried our best to explain the chaos which wld result from such a scheme and to convince him that no responsible person wld accept employment under such conditions. His only answer was that the Iranian people wld not agree. He said he wld call together the Majlis and put up to it Stokes' proposals. Stokes refused to permit such a move and withdrew his 8-point proposal. He explained that he was dealing with the PriMin and not the Majlis and that nothing cld go from him to the Majlis which had not been endorsed by Mosadeq and his Cabinet.

Stokes has given Mosadeq until tomorrow (Wednesday) noon to express his willingness to negotiate on practical basis or he will return to London. This he later confirmed by letter to Mosadeq.

Mosadeq expects foreign staff to work on his terms, foreign oil companies to buy and distribute oil on his terms, and Iran to get all of the profits with compensation only to owners for property taken over. In his dream world the simple passage of legislation nationalizing oil industry creates profitable business and everyone is expected to help Iran on terms that he lays down.

He appears to ignore all of the info and advice Levy and I have been trying to give him and his associates during the past weeks.

I was told Mosadeq wld call Majlis tomorrow and explain negotiations in a highly colored manner. I therefore decided to write him a temperate letter reviewing the positions I have taken, and am releasing it to the press. Text has been telegraphed to Department.[4]

I have just learned that Stokes has a letter from Mosadeq asking him to state in writing for consideration by Iranian Govt his definite proposals for retention of Brit staff. Stokes will consult me tomorrow morning on how to reply to this letter. Difficulty is that whatever Stokes writes will probably be used against him by Mosadeq with Majlis to obtain vote of confidence.

[HARRIMAN]

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[4] Telegram 734 from Tehran, Aug. 21. (888.2553/8-2151) For text of this letter, see Department of State *Wireless Bulletin*, Aug. 23, 1951, p. 7.

No. 75

888.2553/8-2251: Telegram

The Special Assistant to the President (Harriman) to the Embassy in the United Kingdom[1]

TOP SECRET NIACT TEHRAN, August 22, 1951—noon.

163. Eyes only Ambassador. Stokes negotiations with Mosadeq are approaching an impasse with imminent danger negotiations may be broken off. He appears to be fully resigned this possibility and has taken very firm line with Mosadeq.

Ultimatum which he handed Mosadeq yesterday to effect he must have indication by noon today (Wednesday[2]) that Iranian Govt prepared negotiate on realistic basis or else he will leave is reported to have created bad impression and is source of concern Ala and other moderate elements who feel ultimatum to Iranians are serious tactical error and sound too much like AIOC tactics. I believe Stokes attitude at least some extent influenced by messages from Brit Govt indicating perhaps he has gone too far in concessions. While there appears to be little chance that satisfactory arrangements can be worked out with Mosadeq it is in my judgment of very great importance that every effort be made to do so. The 3 principal points to be settled are (1) purchase of most of oil by Brit interests, (2) arrangements for operation within Iran which wld enable retention Brit staff and (3) financial arrangements. Mosadeq has already yielded on first point and present difficulty centers largely around second. If Mosadeq shld yield on this point only third major problem wld remain.

If break in negotiations is inevitable manner in which this occurs is of great importance. Stokes shld avoid attitudes and actions which wld permit Mosadeq to place onus of responsibility upon him. Moreover departure of mission from Tehran shld if possible be under circumstances that wld permit resumption of negotiations at some future time without necessity developing new formula or statement new conditions under which this cld be done. If a more reasonable govt shld evolve, it wld be much easier for a new PriMin to resume talks where Mosadeq left off under our formula which has real practical merit. A "suspension" of talks wld therefore be much better than an absolute break.

While substance this telegram obviously cannot be given to Brit Govt, I hope you will discuss matter with them . . . emphasizing importance of Stokes making every effort to keep talks going, if this shld be impossible, of leaving Tehran under best possible circumstances.

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[1] Repeated to the Department as 737 for President Truman and Secretary Acheson; the source text is the copy in Department of State files.

[2] Aug. 22.

Ref to mytel August 19, which through inadvertence was not rptd to you until this morning (no. 162[3]), I have agreed with Stokes that you shld show it to Foreign Office in order that Brit Govt shld know the strong line I have been taking to Iranian Govt privately with assurance that Brit Govt wld not use substance for formal or informal public statements on their part.

Stokes tells me there there will be Brit Cabinet meeting this afternoon and hopes this will reach Foreign Office for use at meeting.[4]

[HARRIMAN]

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[3] Presumably Harriman is referring to the statement in telegram 709, Document 73; however, there is no indication on that telegram to show that it was repeated to London as 162.

[4] At 5 p. m. on Aug. 22, Holmes reported that he had delivered the text of Harriman's statement to Strang who stated that he would place it before the Cabinet that afternoon. Strang seemed impressed by the idea of a suspension rather than a break in the talks. (Telegram 987 from London; 888.2553/8-2251)

No. 76

888.2553/8-2351: Telegram

The Special Assistant to the President (Harriman) to the Department of State[1]

TOP SECRET PRIORITY TEHRAN, August 23, 1951—9 a. m.

761. From Harriman for President and Secretary. No distribution except as directed by Secretary's office. Mosadeq called on Stokes and myself last evening (Wednesday) at 7:30. He opened his remarks by saying that he could assure Stokes he would agree to operating arrangements which would satisfy British staff and that he therefore wanted to go on and discuss the other points. Stokes maintained that he must settle operational question first and after agreement on that he would proceed to other points. Mosadeq showed clearly that he did not want to be pinned down on management question but become involved in financial matters and come back to the first question only if other points were settled. When Stokes pressed him on arrangements for British staff, he showed he had no comprehension of matter. Thereupon Stokes declined to proceed, stated he would leave today (Thursday) but would gladly

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[1] Repeated to London eyes only for the Ambassador.

return as soon as government was prepared to deal with question of staff in workable manner. He and Mosadeq agreed negotiations were not broken off but were only suspended and could be reopened at any time on basis so-called Harriman formula.[2] At a few minutes before 9 o'clock he handed Stokes and myself document in Persian explaining that this stated the Iranian Government position on over-all problem. When Stokes asked that it not be published until he had had chance to study it with his government in London, Mosadeq replied that it had already been released. It was quoted on Iran Radio at 9 p. m. Text transmitted in immediately following clear telegram.[3]

Ala called on me later with message from Shah that he felt Stokes had been too abrupt in ending negotiations and hoped I could induce him to stay. I took him up to see Stokes who explained that he had worked for almost three weeks without real progress and expressed his conviction that no workable settlement could be reached with Mosadeq. . . . I did not like tenor of talk but had to admit that unless Mosadeq showed a greater willingness to face realities, I saw no value in extended discussions at this time. I pointed out that the document handed us last night was much the same on the question of staff as position Mosadeq had taken when I arrived weeks ago. Stokes, obviously tired, made comments . . . and Ala was forced to say "without mutual trust how can we ever come to an agreement." This talk will undoubtedly be reported to Shah and will add to the difficulties of future negotiations.[4]

[HARRIMAN]

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[2] Regarding the "Harriman formula," see Document 52.

[3] Telegram 762 from Tehran, Aug. 23. (888.2553/8-2351)

[4] At 3 p. m. Harriman reported that Stokes had paid farewell visits to Mosadeq, Ala, and the Shah, and had left Tehran for London. Stokes and Mosadeq agreed to state that the negotiations had been suspended, not broken off, and Stokes apologized to Ala for the comments he had made the night before. (Telegram 781 from Tehran, Aug. 23; 888.2553/8-2351) On Aug. 24 Harriman reported that he had again seen Mosadeq to see if any further progress could be made, but that the Prime Minister remained adamant. (Telegram 786 from Tehran; 888.2553/8-2451) On Aug. 25 Harriman left Tehran.

No. 77

888.10/8-2751: Telegram

The Ambassador in Iran (Grady) to the Department of State

TOP SECRET TEHRAN, August 27, 1951—2 p. m.

814. Eyes only McGhee. Distribution only as directed by McGhee. Please note carefully Embtel 807, August 27.[1] What we do on Exim Bank loan is tied in with everything we have been trying to do and are trying to do in Iran, including solution oil problem. From beginning, certainly ever since I arrived, British policy and our policy have been basically different. We have reached the point now where we must decide to maintain our own policy or accept that of British. It is my strong conviction that British policy has been and is one that may well lead to disaster in this country. They are using economic sanctions to get Mosadeq out and want us to do the same. They want us to endorse completely their proposals for oil settlement which is neither necessary nor desirable from standpoint of our policy here. The latest British proposals are good and shld not have been rejected. This is true also of Jackson proposals which I, in a letter to PriMin and which was published, suggested should be given most careful study and would in my opinion, meet the PriMin's principles regarding nationalization. I carefully saw and approved various statements which Harriman put out and I strongly believe we should not go further than this. The question of further statements with regard to oil by President or Secretary of State is tied in with matter of British opposition to Exim Bank loan. The British definitely want us to join with them in economic sanctions. If we decide to let them call all the plays, we will absorb a large part of present deep antagonism toward British. The Irans either rightly or wrongly considered that Harriman was very much on British side. This was inevitable due to fact that he and Levy urged in their private discussions acceptance of fundamentals of British offer and continued negotiation with regard to details. The American position is good here. It wld, in my opinion, be grave mistake to allow our govt to be pressured by British into changing our policy. I believe there is still a fair chance of our getting Mosadeq Govt to come to terms with British. Processes of oriental bargaining are slow. We must keep that in mind.

I make this personal appeal to you and through you to Secretary in hopes that we keep in mind overall problem of Iran, remember-ing that altho oil question is basic, it is not everything. We must make every possible effort to keep this country from slipping behind Iron Curtain. To do this at least one of the great western democracies must maintain a position of basic friendliness for Iran. Otherwise, it will have no place to look for friendship and assistance except to Russia.

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[1] Telegram 807 reported that Iran was taking measures to expedite the formalities of the Export-Import Bank loan and to facilitate its implementation. (888.00 TA/8-2751)

GRADY

No. 78

888.2553/8-2851: Telegram

The Special Assistant to the President (Harriman) to the Department of State[1]

TOP SECRET LONDON, August 28, 1951—2 p. m.

1090. From Harriman for President and Secretary; no distribution except as directed by Secretary's office. I met yesterday afternoon (Monday[2]) with Attlee and group consisting of Stokes, Shinwell, Addison, Ede, Lord Alexander, McNeil and Strang. Holmes and Rountree accompanied me.

In reviewing Iran situation I said Stokes' mission had been of real value and had reduced to some extent Iran resistance to Brit and made progress in breaking down Iranian intransigence thus making any future negotiations considerably easier. I pointed out explosive situation exists which requires skillful handling and closest coordination US-UK policies. I emphasized importance working with Shah and of giving him proper encouragement to act when situation permits, while not forcing him to take measures which he considers wld be dangerous. I urged caution in next moves and suggested Brit let situation simmer for a time, pointing out that adverse economic conditions in Iran will weaken Mossadeq only if there is minimum indication that they are brought about by outside pressures but are understood to be the result of Mossadeq's inept handling. This may take some time, particularly in view financial reprieve obtained by Mossadeq by virtue 14 million pounds made available from currency cover.

Stokes mentioned two encouraging developments, namely the strengthening of Iranian security forces at Abadan to prevent disorders, which apparently was the result of talks which we had had with Shah, and message received Monday from Shepherd saying

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[1] Repeated to Tehran eyes only for the Ambassador.

[2] Aug. 27. Following talks in Belgrade with Tito, Harriman stopped in London for further discussions with the British before returning to Washington.

Shah advised him that Mossadeq had agreed to establish managing board under NIOC with two British, two Iranian and two neutral directors and with British general manager. British said and I agreed, however, that there shld be clear evidence Iranians prepared to be realistic in financial aspects of settlement before sending mission with Minister back to Iran. We discussed desirability of Brit sending to Tehran a technical level officer conversant with previous negotiations and with knowledge all aspects of problem. He would be assigned to Ambassador's staff for purpose keeping in touch with Iranians, being available assist them in understanding realities of situation, and encouraging them to come forward with proposals which would make it possible to resume negotiations. Although Prime Minister expressed some concern that this might be interpreted as being itself a resumption of negotiations, and would thus reduce pressure on Mossadeq, British seemed generally impressed with advantages and will give suggestion further consideration.

Prime Minister and others were concerned that inaction by British for protracted period is embarrassing politically in UK and indicates sign of weakness abroad. They are acutely aware of possible approaching elections. They pointed out that although payment local employees in fields stopped because no British there to pay them, continued payment of Iranian staff at Abadan imposes heavy financial burden which can not go on for long; also that continued provision of dollars under financial agreement with Iran and shipment of goods in very short supply here, such as steel and sugar, wld be most difficult to justify to British public while Iranians are "kicking Britain around." . . . I emphasized danger of disastrous consequences of military action beyond that absolutely necessary in landing forces solely to evacuate British personnel, and found that there appeared to be general agreement on this. I said that I had assumed payments to Iranian personnel could not go on indefinitely, but emphasized dangerous effects of this and other economy measures. I urged that Shah be consulted in advance before any such steps are taken. I said that manner in which any economy measures having adverse effect upon Iran are taken is extremely important and that any such action shld be on the basis of availabilities without public statement; that if British pressure is overtly exercised in form of publicly announced sanctions, Mossadeq would not be weakened and public opposition to British would be further solidified. Stokes supported me in this, and others seemed to agree.

Stokes referred to press stories to effect that British Ambassador in Tehran, contrary to Stokes advice (and contrary to strong advice given British by me), had stated that further negotiations with

Mossadeq impossible and that Mossadeq should be replaced. He also referred to press stories that US Ambassador would undertake discussions with Mossadeq as mediator in endeavor find solution. I, of course, stated that latter story could have no foundation in fact. Stokes mentioned this mainly to emphasize importance of US and UK coordinating their policies. Great difficulty is that Iranians are under the impression that there is substantial divergence of views between US and UK. We agreed upon importance continued advance consultation between two governments and of closest working relationship between Embassies in Tehran. Latter essential to arrive at agreed appreciation of situation to establish points of difference thereon, and to agree in light of such appreciation as to action which should be taken by each govt.

It was agreed as result of position I took, with strong support by Stokes, that in the interest of our common objectives each of us should take an independent though closely coordinated line on the situation as it develops.

Attlee said at end of meeting that he agreed British could delay for a time taking any special measures, but said he wanted us to know he cld not let situation drift indefinitely and hoped for US understanding and support if circumstances require specific actions which he did not define. He and his colleagues appeared to agree provocative statements or action would do more harm than good.

Talks were in private and in the tone of close associates dealing with a common problem. Britain seems most appreciative of efforts which have been made by US to help find solution. They did not even raise question of US giving categoric public support for their position or reply Attlee letter to President.[3] My immediately following telegram suggests line of reply this letter.[4]

[HARRIMAN]

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[3] Not printed.

[4] Telegram 1099 from London, Aug. 28. (888.2553/8–2851)

No. 79

888.2553/8-3051: Telegram

The Ambassador in Iran (Grady) to the Department of State[1]

SECRET TEHRAN, August 30, 1951—2 p. m.

868. The Shah requested me to call on him yesterday and I made an appointment and saw the PriMin this morning.[2] The Shah wished to discuss with me the gen sitn in Iran as a result of the failure to reach an oil agrmt. I asked to see Mossadeq because I wanted to check with him on the gen sitn since I have not seen him throughout most of the time that Harriman was here. I am not assuming to mediate anything but naturally if there are any changes in the thinking of the PriMin and his group it is important that the Dept shld be informed.

There was nothing significant in my talk with Shah. He is deeply disappointed and concerned at the failure of negots, but does not see that he can intervene with Mossadeq at this particular time. He is hoping that developments will eliminate Mossadeq and make possible the selection of a rational PriMin. He speculated as to Mossadeq's real intentions and neither of us had the answer. The group around him certainly wish to keep him in power until at least the 23rd of Sept.[3] What their future plans are, assuming success in this regard, probably they themselves do not know.

The Shah expressed concern about terrorism in Iran and its effect on members of the Parliament. He particularly mentioned Mullah Kashani as a dangerous element in Iran politics, adding that his govt had intercepted communications between Kashani and the Russians which indicated that Kashani might be looking in the direction of collaboration with the Sovs.

The Shah is groping for a solution but is moving cautiously and I think he is wise in this regard. He is leaving today for an eight-day rest at his palace on the Caspian. Before seeing me he saw the Brit Amb and during the day Seyid Zia and Qavam. The Brit Amb is calling on me later this morning and I will report if there is anything significant in what he wishes to discuss.

I had several matters of a more or less routine nature to take up with the PriMin and then asked him what his plans were with regard to the oil problem. I asked him if he and his group were planning to make any more formal and comprehensive reply to the Stokes proposals. He replied that he had hoped that I was coming with further proposals from the Brit. I said that as I have read the press statements, the Brit feel the next step shld come from the Iran Govt. He replied that if he had to wait several years, he wld make no further reply to the Brit Govt nor wld he make any concessions that wld be in conflict with the oil nationalization law of March 20 nor the nine-point implementation law of April 30. He repeated to me what he had said to Harriman last Friday evening, that he wld not consider any proposal to give the Brit any profits out of the operation of the oil industry or the marketing of the oil products. The law provides for payment of compensation with due consideration to Iran counterclaims. To talk about the manner of operating the refinery is somewhat irrelevant if his position on the matter of profits is unchangeable. In other words, I found Mossadeq saying precisely what he said in our first discussion on the oil question.

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[1] Repeated to London.

[2] Memoranda of these conversations were transmitted as enclosures to despatch 313 from Tehran, Sept. 4. (788.00/9-451)

[3] According to the memoranda referred to in footnote 2 above, this was the date on which the Iranian elections would be complete.

He more clearly than at any time before indicated his expectation of assistance from the US. I said that there was no assistance other than the good offices of the Pres's special rep, Mr. Harriman, that the US was prepared to give. He begged me almost pathetically for "good news". I told him quite directly that I felt the good news cld come only from him and his associates; that the solution for Iran's fin and econ problems lay in the hands of his govt. Unprepared as he is to make any concessions, he had no apparent plans as to how the govt cld be financed without oil revenues. He does not now seem to expect revenue from oil operations. This is a surmise on my part as I gathered it from his gen conversation. The matter will have to rest for the time being until we can see what developments may take place.

GRADY

No. 80

Editorial Note

On August 23 Prime Minister Attlee wrote to President Truman concerning the situation in Iran following the failure of the Stokes Mission. After reviewing the progress of the talks, thanking the President for the assistance rendered by Harriman and Levy, and expressing agreement with the United States that there was danger of Iran falling under Communist domination, Attlee urged the President to state that the United States Government fully supported the British stand, that it regarded the breakdown in the talks as solely the fault of the Iranian Government, and that the disaster which now threatened Iran was due only to the policy of that government. (A copy of this message is in file 888.2553/10-1051.)

No. 81

Editorial Note

Discussion of a reply to Prime Minister Attlee's message began on August 24 and included the Embassies in Tehran and London, the Bureau of European Affairs (EUR), the Offices of Greek, Turkish, and Iranian Affairs (GTI) and British Commonwealth and Northern European Affairs (BNA), the Executive Secretariat (S/S), the White House, and Special Assistant Harriman. By September 1, a draft approved by Secretary Acheson before he left for San Francisco to attend the Japanese Peace Treaty Conference had been forwarded to President Truman. This draft was revised and the revision approved by Harriman. The Department of State felt that the revision would only add to the difficulties in discussing Iran with the British and transmitted the texts of both drafts to Secretary Acheson at the conference for his consideration. Following an exchange of communications between President Truman and Secretary Acheson on September 2 and 3, it was agreed to withhold any reply to Attlee pending further discussion when Secretary Acheson returned to Washington. There is no indication in Department of State files that there was any further discussion of the drafts or that any written reply to Attlee was ever sent.

According to *Account of the Iranian Oil Controversy,* page 126, however, Secretary Acheson told the British at San Francisco that a blanket endorsement of every step that the United Kingdom might take with regard to Iran would identify the United States with the AIOC to the detriment of both powers. Acheson further indicated that neither state should do anything which would make it difficult for Iran to resume negotiations and stressed the need for full cooperation between American and British Embassies in Tehran and for continued consultations between the two governments.

The texts of the two draft replies to Attlee are in Telacs 4 and 5, September 1, *infra* and Document 83. Documentation relating to the drafting of the two proposed replies and the exchanges between President Truman and Secretary Acheson is in files 888.2553/8-2451 through 9-351.

No. 82

888.2553/9-151: Telegram

The Acting Secretary of State to the Secretary of State, at San Francisco[1]

TOP SECRET WASHINGTON, September 1, 1951—10 p. m.
PRIORITY NIACT

Telac 4. Eyes only for Secy personal from Matthews. Fol is draft reply to Attlee as approved by you and referred to as (A) in my preceding tel:[2]

"I deeply appreciate ur full and frank statement which you sent me on Aug 23[3] setting forth the position of HMG with re to the situation in Iran now that the negots between the Brit and Iran Govs have been suspended.

I am gratified that you found Mr. Harriman's services of value and you may be confident that both he and I stand ready take any further steps which may be helpful in finding a solution to this difficult and disturbing problem. The US understands and fully shares the disappointment and concern felt by the Brit Gov over the suspension of the recent conversations in Iran.

I desire to state at once that the US agrees with the UK's views re the seriousness of the situation in Iran and the danger it involves for the free world. The US policies re Iran are designed primarily to prevent the present situation from leading to the loss of Iran and are, I am confident, directed toward objectives similar to those which the UK seeks to achieve. On Aug 23 I made a public statement[4] which expressed my disappointment at the suspension of the negots in Tehran and publicly subscribed to the views set forth by Mr. Harriman in his ltr of Aug 21 to PriMin Mosadeq.[5] Those views clearly stated the US position and placed the blame for the failure of the negots upon the IranGov. We shall take advantage of any appropriate opportunities that present themselves to repeat these views and to comment specifically upon any Iran action which may be unrealistic.

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[1] Drafted by Ferguson (GTI) and cleared by McGhee, Matthews, Barnes, and Bonbright. Secretary Acheson was in San Francisco for the signing of the Japanese Peace Treaty; for documentation on the San Francisco conference, see *Foreign Relations*, 1951, vol. VI, Part 1, pp. 777 ff.

[2] Telac 3, Sept. 1, informed Secretary Acheson that a draft reply to Attlee as approved by Acheson (A) and a revised draft signed by President Truman (B) were being sent to him by separate cables. (888.2553/9-151)

[3] See Document 80.

[4] For the text of President Truman's statement, see Department of State *Bulletin*, Sept. 3, 1951, p. 382.

[5] For the text of Harriman's letter, see Department of State *Wireless Bulletin*, Aug. 23, 1951, p. 7.

It is, of course, important that nothing be done to create an impression on part of Irans that there is an important pol divergence between the US and the UK. It is our firm belief, however, that our mutual goal in Iran can best be obtained if US influence in that country, which has been established on the basis of a friendly and openminded approach to the oil dispute is not jeopardized. A blanket endorsement of every step which has been or may be taken in this matter by the UK wld undoubtedly identify the US with the present target of nationalism in Iran, namely, the AIOC, to the detriment of the interests of both of our countries. This does not mean that we shall equivocate upon fundamental rights and wrongs or permit the basis of internatl commercial relations to be undermined, but rather that we shld maintain freedom of action to speak independently in a manner calculated to exert the most constructive influence and to render the most effective type of support possible.

I am sure we both agree that the internal polit situation in Iran indicates that nationalism is a real and potent force. The US does not believe, therefore that our mutual objectives in Iran can be achieved by either of us taking a course of action which wld appear to be in opposition to the legitimate aspirations of the Iran people. Even if a new Gov shld come to power in Iran, we believe that it wld be subj to much the same pressures which have made the present gov unwilling to make the concessions needed for reaching an agreement. However, with the passage of time and with wisdom on our part we believe it possible that the present extreme nationalist pressures may moderate and a more realistic attitude may be assumed by the IranGov.

We are encouraged by our belief that a basis has been established upon which negots can be resumed if and when this takes place. In the meantime, we believe it important that neither the US nor the UK take a public position which might make it politically difficult or impossible for the IranGov to assume a conciliatory attitude.

We believe that coordination in our respective approaches to the Iran problem is essential and we attach great importance to the pol of prior consultation between our two Govs. It is especially desirable that our two Embs in Tehran work in the closest collaboration on all phases of the matter.

I wish to repeat in conclusion that the US desires to work in Iran as elsewhere in the closest possible harmony with the UK. We sincerely believe that we can do this in the particular case of Iran, whose retention in the free world is our common objective."

WEBB

No. 83

888.2553/9-151 Telegram

The Acting Secretary of State to the Secretary of State, at San Francisco[1]

TOP SECRET WASHINGTON, September 1, 1951—10 p. m.
PRIORITY NIACT

Telac 5. Eyes only for Secy personal from Matthews. Fol is Pres revision reply to Attlee referred to as (B) in my preceding tel:[2]

Dear Mr. PriMin: I deeply appreciate ur full and frank statement which you sent me on Aug 23 setting forth the position of HMG with re to the situation in Iran now that the negots between the Brit and Iran Govts have been suspended.

I am gratified that you found Mr. Harriman's services of value and you may be confident that we stand ready to take any further steps which may be helpful in finding a solution to this difficult and disturbing problem. The US understands and fully shares the disappointment and concern felt by the Brit Govt over the suspension of the recent conversations in Iran.

The US agrees with the UK's views regarding the seriousness of the situation in Iran and the danger it involves for the free world. The US policies regarding Iran are designed primarily to prevent the present situation from leading to the absorption of Iran by the Communists and are directed toward objectives similar to those which the UK seeks to achieve.

On Aug 23 I made a public statement which expressed my disappointment at the suspension of the negots in Tehran and publicly subscribed to the views set forth by Mr. Harriman in his letter of Aug 21 to PriMin Mosadeq. Those views clearly stated the position of the Govt of the US.

It is our firm belief that our mutual goal in Iran can best be obtained if the friendship for the US in that country, which has been established on the basis of a sympathetic and open-minded approach to the oil dispute, is not jeopardized. A blanket endorsement of every step which has been or may be taken by the UK wld undoubtedly identify the US with the present target of nationalism in Iran, namely, the Anglo-Iranian Oil Co, to the detriment of the interests of both of our countries and the free world.

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[1] Drafted by Ferguson (GTI) and cleared by McGhee, Matthews, Barnes, and Bonbright.

[2] See footnote 2, *supra*.

I am sure we both agree that the internal polit situation in Iran indicates that nationalism is a real and potent force. The US does not believe, therefore, that our mutual objectives in Iran can be achieved by either of us taking a course of action which wld appear to be in opposition to the legitimate aspirations of the Iran people. Even if a new govt shld come into power in Iran, we believe that it wld be subj to much the same pressures which have made the present govt unwilling to make the concessions needed for reaching an agreement. With the passage of time we believe it possible that the present extreme nationalist pressures may moderate and a more realistic attitude may be assumed by the IranGov.

We are encouraged by our belief that a basis has been established upon which negots ultimately can be resumed. In the meantime, we believe it important that neither the US nor the UK take a position which might make it politically difficult or impossible for the IranGov to resume negots. It is especially desirable that our two embassies in Tehran cooperate fully on all phases of the matter and that there be continued consultation between our two govts. The US desires to work with Iran in the closest possible harmony as well as with the UK.

WEBB

No. 84

888.10/8-2751: Telegram

The Acting Secretary of State to the Embassy in Iran[1]

TOP SECRET WASHINGTON, September 7, 1951—2 p. m.

524. For Ambassador Grady. While we fully appreciate importance views expressed urtel 814 Aug 27[2] and earlier msgs on same subj, Iran assumption early implementation Exim Bank loan is foregone conclusion shld be resisted. For reasons set forth below we neither wish to proceed with loan in normal manner at this time nor do we want Irans to obtain impression we are using loan as polit weapon in oil controversy. It is necessary, therefore, to devise formula which will meet these requirements.

Among our reasons for proceeding slowly with loan are:

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[1] Drafted by Dorsz and Ferguson and cleared by Thorp, McGhee, Bonbright, and the Export-Import Bank.

[2] Document 77.

1. Present IranGov will tend to use our action as evidence Amer support of Iran position in oil controversy, may be encouraged to continue present intransigence and may use this evidence Amer support to strengthen its own internal polit position.

2. Failure of Mosadeq gov to do anything for its country either by settling oil controversy or obtaining fon loans might tend to bring about a more reasonable attitude and possibly a change of pol if not of gov.

3. Present good position of US in Iran is of little value if Iran through its own folly falls into Communist hands as result of economic chaos. We must therefore be willing to take certain risks at present in order to safeguard future independence of Iran which to great extent depends on settlement oil question.

4. Proceeding with loan wld unduly strain US-UK relations.

5. US position vis-à-vis other countries especially those in area and those subj to heavy Communist pressure might be jeopardized by assumption that US determination resist Communism so great that it is willing to support such policies as those followed by IranGov regardless of merits of case or principles involved.

6. If we start negots without clear understanding that Irans must demonstrate how they plan meet local currency and fon exchange requirements, negots might drag on indefinitely and eventually collapse. Such a development wld probably have more serious effect on our position in Iran than if we frankly pt out to Irans now magnitude of econ problems involved in concluding loan projects.

Our problem is to seek formula which will for time being at least minimize polit considerations involved in loan and allow econ financial considerations to guide decision. Accordingly, we think it advisable Mosadeq be informed why Dept believes sending mission here premature:

1. At time loan was negotiated last year Iran had balance of payments and earnings prospects sufficient to justify favorable action on loan application. At present, however, question arises as to how local costs, upon which success of program depends, wld be financed. You cld emphasize that with greatest good will such basic criteria as this cannot be ignored in internatl loan matters and Exim Bank cannot proceed with loan in absence Iran ability to provide such funds.

2. In effort dispel Iran idea we are using loan as polit tool, you cld pt out we are proceeding to implement our mil and Pt Four programs.

3. We remain ready to arrange discussions between Irans and Bank regarding implementation of loan when former show plans have been perfected meet local currency and fon exchange requirements.

FYI, we realize Irans will assume our action based on Brit pressure and is first step by US in imposing econ sanctions. We have no intention imposing sanctions and are assisting Irans in various ways a was case before oil negots suspended. Furthermore, as stated Deptel 476,[3] while US will continue work in close concert UK, US will follow independent pol in Iran.

For reasons set forth above, Dept wld appreciate ur discussing matter with Mosadeq and let us know his reaction.

WEBB

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[3] Not printed.

No. 85

888.10/9-2151: Telegram

The Ambassador in Iran (Grady) to the Department of State

TOP SECRET TEHRAN, September 11, 1951—2 p. m.

975. Saw Mosadeq this morning and communicated to him essentials of Deptel 524 Sept 7. I stressed fact that bank's concern was based on certain financial questions which it wished to have cleared up before signing loan agrmt with Iranian Govt. I pointed out that when bank agreed year ago to make loan to Iran it stated it wld do so on two conditions; namely, that there wld be adequate supply of dollar exchange to service loan and that there wld be enough rials available to take care of local costs involved in successful implementation of loan. I advised Mosadeq that Iranian Govt gave at once written assurances on these two points which I passed along to Export-Import Bank. I added that for various reasons situation with ref to these two points is by no means as favorable today as it was year ago but when Iranian Govt is in position to present plans showing how provision will be made for meeting local currency and fon exchange requirements State Dept wld arrange for early discussions between Iranians and bank on these matters.

PriMin became angry and said that our govt was working with Brit Govt to boycott Iran in order to force an oil settlement that was satisfactory to Brit. He said he wld at once write Majlis to drop loan matter (the loan agmt itself has not yet, in accord with Export-Import Bank loan legis been finally approved by budgetary and fon commissions) and wld make statement to press. I urged him to take no such hasty action; that he was mistaken in assuming that we were in any sense boycotting Iran; that problems were technical, not political ones and were due largely to long delays which have taken place since loan became available in Jan of this year. I stressed fact that points raised by Export-Import Bank did not mean that bank was unwilling to make loan and that what bank wanted in way of assurances cld result merely in matter of delay.

He was insistent that action of our govt was tied in with oil question, stating that nothing had changed since bank was prepared to sign loan agreement except development of oil problem. He referred to statement in press, assuming to quote bank authority in Washington as saying there wld be neither an Export-Import Bank loan nor an internatl bank loan to Iran until oil question was settled. I replied that I felt sure that no such statement had been made by Export-Import Bank. I also assured him that when I got to Washington[1] I wld go thoroughly into matter of loan. I said that assurances to bank with regard to fon exchange and govt revenues were not tied to consummation of oil agrmt with Brit, but that shld assurances be given of adequate revenues, from whatever source, the bank's concern wld be met.

He then said that since the people wld be reading statement referred to above in local press that I shld give him in writing what I said to him verbally. I cld see no way of avoiding this, nor did I deem it advisable to do so, since he wld make statement to Majlis and press which wld be in terms of his own convictions in matter. I have prepared letter which I will send him today and I am transmitting it to Dept in fol wire.[2]

GRADY

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[1] When Grady was appointed Ambassador to Iran in June 1950, he had undertaken the assignment for 1 year. At the end of May 1951, he indicated that he would like to be relieved by July 15. (Memorandum by McGhee, May 29; 123 Grady, Henry F.) The failure of the Stokes Mission presented the first occasion for his relief, and Grady left Tehran on Sept. 19. The nomination of the new Ambassador to Iran, Loy Henderson, formerly Ambassador to India, was approved by the Senate on Sept. 13. Henderson arrived in Tehran on Sept. 22 and presented his credentials to the Shah on Sept. 29.

[2] Telegram 976 from Tehran, Sept. 11. (888.10/9-1151) A more extensive account of this conversation was transmitted as an enclosure to despatch 345 from Tehran, Sept. 11. (888.10/9-1151)

No. 86

Editorial Note

On September 12 Prime Minister Mosadeq sent a letter to Harriman through the Iranian Embassy in Washington outlining four proposals for the resumption of talks with the British and stating that, if 15 days after the presentation of his proposals to the British, no satisfactory conclusion was achieved, then the Iranian Government would cancel the residence permits of all British experts and staff residing in the southern oil fields. On September 15 Harriman replied, commenting that the four proposals appeared to be the same as those presented to Stokes and in some respects were a retrogression from previous Iranian positions. Because of the nature of the Iranian proposals, Harriman expressed the view that they would further aggravate the situation and declined to pass them on to the British.

Four days later Minister of Court Ala handed Ambassador Shepherd a set of proposals similar to those sent to Harriman, differing only in that no ultimatum was included and that the Iranians were prepared to accept a foreign technical director. On September 21 officers of the Department of State, having learned of the Iranian proposals through the Embassy in Tehran, discussed them with Ambassador Franks, stressed their fear of the serious repercussions of a completely negative reaction to what appeared to be a step forward by Iran, and emphasized the new element that seemed to have been added by the apparent willingness of Iran to send a mission to London for negotiations. (Telegram 1622 to London, September 22; 888.2553/9-2051) On September 23 the Embassy in London reported that despite the urging of the United States, and acting on information from Tehran that the Shah was now disposed to act, the Foreign Office had instructed Shepherd to reject the Iranian proposals.

For texts of the letters exchanged between Mosadeq and Harriman, the second Iranian proposal, and Shepherd's letter of rejection, see British Cmd. 8425, pages 60-66 or *Documents* (R.I.I.A.) for 1951, pages 506-514. The Harriman-Mosadeq correspondence is also printed in Department of State *Bulletin*, October 1, 1951, pages 547-548.

No. 87

888.2553/9-2151

Memorandum by the Acting Secretary of State[1]

TOP SECRET [WASHINGTON,] September 21, 1951.

CABINET MEETING, FRIDAY, SEPTEMBER 21, 1951

POSSIBILITY UTILIZATION IRANIAN OIL BY USSR

Secretary Lovett made a long report on a study he has had completed with respect to Iran and the possibility of utilization of Iranian oil by the USSR. He pointed out that of a tanker tonnage equivalent of about 1,500T2 worldwide, a substantial amount of tanker tonnage was in the hands of nations other than the US or UK, many under Panamanian registry. He further pointed out that if the USSR should be able to convert Iran to a satellite or other subservient status, USSR could more than likely acquire sufficient tanker tonnage to move substantial quantities of Iranian oil into USSR territory.

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[1] Secretary Acheson was in Ottawa for the Seventh Session of the North Atlantic Council, Sept. 15-20; for documentation on this meeting, see *Foreign Relations*, 1951, vol. III, Part 1, pp. 616 ff.

He pointed out that under the circumstances it was wrong to assume that the USSR could not make fairly rapid use of Iranian oil and that substantial military effort would be required to prevent this in the event of hostility. He suggested consideration be given to avoiding the possible transfer of tankers to control of the USSR, and if it appears that the British are not going to work out their problem with Iran, the sending in of American technicians and other personnel to operate the oil installations if this became necessary to prevent the USSR from acquiring the advantage of Iranian oil.

After the meeting I suggested to Secretary Lovett that it would cause real difficulty in the immediate trying period if any indication came from anyone in the Government that we were considering putting American technicians into Iran.

JW

No. 88

888.2553/9-2551 Telegram

The Chargé in Iran (Richards) to the Department of State

TOP SECRET NIACT TEHRAN, September 25, 1951—11 p. m.

1163. When Amb Henderson called on Min Foreign Affairs Kazemi this morning latter suggested Amb pay informal call on PriMin soonest. Amb reminded Min Foreign Affairs that he had not yet called on Shah to present credentials but was assured Iran Govt wld consider informal call quite proper and arrangement wld be made for Amb Henderson to see PriMin Mossadeq 6 p. m., Sept 25.

Therefore, Amb, accompanied by Stutesman as interpreter, met PriMin at latter's residence 6 p. m. After exchange courtesies PriMin spoke of depth of national feeling re oil dispute and public discontent with Brit policy which he said was inextricably mixed with ex-AIOC conduct in Iran. He described again his fears that the center mass of patriotic Persians wld turn to Leftist revolution if "cause" against Brit intervention internal affairs not won.

At this point he referred to today's instructions sent provisional three directors NIOC that all Brit oil technicians must leave Iran by Oct 4th. (Embtel 1159, Sept 25.[1]) Amb said that he wld appreciate understanding background this move and PriMin's explanation what he hoped to gain thereby. PriMin replied that if Brit technicians remained no non-Brit foreign technicians or oil purchasers wld dare open dealings with Iran. Amb asked if he properly understood Iran Govt intention was to burn bridges so that world wld know Iran-Brit negots forever broken. PriMin quickly replied he did not want to drive Brit out but situation required this action. He explained Brit technique was exert econ pressure while preventing operation oil industry in hopes Brit conditions cld be imposed on Iran when country thoroughly impoverished. He said Iran Govt cld exist 4 months more on funds on hand and national loan now being commenced.

Amb said he wanted to help in anyway possible. He said:

(1) He agreed it wld be tragedy for Iran, Brit and world if concession reestablished Iran which wld give Brit undue pol power within Iran;

(2) Altho neither oil expert nor experienced industrial manager, he believed advice oil experts in whom he had confidence that large oil industry cld not be run satisfactorily by employment individual inexperienced technicians from different countries and serious econ troubles wld face Iran for a long time if industry unproductive. Amb continued that only solution apparent to him was understanding between Brit and Iranians which wld allow Brit tech direction oil industry while removing possibility their improper interference in Iran's internal affairs.

PriMin gave vigorous assent these statements and said door not entirely closed. He described his govt's attempt keep discussions going on basis four point proposal submitted Brit Amb by Min Court Ala last week. (Embtel 1091, Sept 20). He produced copy these proposals and copy Brit Amb Shepherd's ltr in reply Ala (Embtel 1143, Sept 24). PriMin said Brit reply indicated Harriman had agreed with Brit rejection and in fact ltr to Ala indicated Harriman ltr Sept 15 gave rejection new proposals and Brit Govt entirely in agreement.[2] Implication obviously drawn by Mossadeq who appeared indignant at Brit reply was that Harriman after consultation with Brit agreed to reject new proposals.

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[1] Not printed.

[2] Neither telegram cited in this paragraph is printed. Regarding the Iranian four-point proposal of Sept. 19, Ambassador Shepherd's reply of Sept. 23, and Harriman's letter of Sept. 15, see Document 86.

PriMin said if Brit mission dispatched Tehran by Oct 4th or Brit Amb Tehran instructed open negots basis four point proposal originally outlined to Brit by Ala ltr dispute cld still be settled by negot. He laid down further condition that these negots must be successful within 15 day period starting Sept 27th. He further added that this conversation wld have to be kept entirely secret by the three participants. Amb Henderson cld however, approach Brit with suggestion that they send such mission or instructions. Amb cld then negotiate with Irans with view obtain agreement enter negots. In any case, PriMin insisted four point proposal contained in Ala memo wld be basis discussions.

Amb said he cld not argue on behalf Brit; nevertheless he felt it necessary in order approach Brit that he have some sweetening four point proposal to allow Brit save face in opening negots after having rejected same proposal previously. Amb asked if he cld assure that technical director might be Brit national. PriMin replied "absolutely no" as an assurance of this kind cld only be given through Majlis. Amb asked if possible Iran mission go to London. PriMin replied this wld be impossible. Amb asked if discussions wld be carried out within framework four point proposal or if Brit wld have to accept it completely before coming out.

PriMin replied no new proposals cld be made but that within framework four point proposal minor changes cld be worked out in discussions; for example, he referred Stokes request Brit purchase 10 million tons oil and said quantity cld be augmented if Brit desired.

The Amb inquired if there had been any discussions methods determining Iran counterclaims oil dispute and PriMin said Iranians wld fix Brit debt to them on basis past accounts but he said "on my word of honor I assure you we want to finish this affair quickly".

PriMin made two definite points during course conversations:

(1) In next few days all countries of world wld be asked to offer send technicians and buy oil and every offer from no matter what country wld receive consideration;

(2) Brit cannot participate on profit sharing basis oil revenues after just claims have been paid.

Two hour conversation ended in friendly atmosphere with PriMin understanding Amb wld await instructions.

Dept may wish in its discretion communicate this to Emb London. However, Amb Henderson strongly feels his effectiveness here will be seriously harmed if British learn of this top secret conversation with PriMin.

Dept will observe Amb gave no undertaking re his course action. He and I inclined believe it wld be useless endeavor persuade Brit

Amb here recommend his govt open negots on basis Ala memo. On other hand in our opinion if Brit continue remain aloof and make no move to renew negots Brit technicians likely be expelled by Oct 4.

Even if Mossadeq shld, in meantime, be overthrown, successor govt wld find it extremely difficult withdraw expulsion order unless Brit shld change present attitude. We hope therefore Dept can persuade Brit either send someone Iran immediately to enter discussions with Ala memo as starting point, or instruct Amb Shepherd to negot. We doubt Amb Shepherd in present frame mind cld negotiate effectively unless he in receipt fresh and specific instructions. In any event seems important Brit take steps to prevail on Mossadeq not slam door by carrying out expulsion orders. Mossadeq apparently feels he has yielded to Brit insistence that he take next step and that he has been snubbed.

RICHARDS

No. 89

888.2553/9-2651: Telegram

The Secretary of State to the Embassy in Tehran[1]

SECRET PRIORITY WASHINGTON, September 26, 1951—7 p. m.

655. Re immed fol tel,[2] fol is msg dated 25 Sept from Attlee to Pres:

"You will recall that on Aug 23rd I sent you personal msg[3] expressing grave concern of HMG over situation in Persia and urging in our common interests USGov shld make it plain they fully supported attitude which HMG had been compelled to adopt. I was greatly encouraged by discussions which took place between Morrison and Acheson on this matter on Sept 11th [*10th*][4] and by firm reply which Harriman sent Musaddiq when he recently threatened an ultimatum involving withdrawal of Residence Permits of Brit staff.[5]

2. Unfortunately since then there has been further deterioration in situation in Persia which has now culminated in announcement by Persian Govt so far unaccompanied by any notification to HMG

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[1] Repeated to London.

[2] Telegram 656, *infra*.

[3] Not printed.

[4] Minutes of this meeting, U.S.-U.K. MIN-1, are in Conference files, lot 59 D 95, CF 90.

[5] See Document 86.

that they propose on Sept 27th to give remaining Brit staff at Abadan one week within which to quit Persia.[6]

3. This step if implemented wld constitute final flouting by Persian Govt of interim decision of ICJ under which *status quo* in regard to oil industry and AIOC in Persia was in effect to be maintained pending Court's final decision. Issue of announcement faces HMG with choice between withdrawing whole of Brit staff or of intervening in Persia in order to secure their maintenance in Abadan. Hitherto under considerable provocation we have kept situation open for settlement. We are now faced with action by Persian Govt which may be irreparable.

4. To submit to eviction of Brit staff wld in view of HMG have gravest consequences not only for UK interests in Persia but for US as well as UK interests throughout the Middle East. Further it wld represent blow to Brit and I believe to Western influence and prestige in area which as we have both recognized is weak spot in our containment wall. Finally it wld leave vacuum in Persia which Russia by logic of events wld be bound to try to fill. In meantime it wld render far more remote chances of solution of oil dispute and eventual econ collapse of Persia cld only be averted by large-scale external assistance.

5. On other hand for HMG to seek to maintain Brit staff in Abadan by armed intervention wld clearly run serious risks quite apart from its legal aspect. You will appreciate however that public opinion in this country will find it difficult to understand why decision of ICJ cannot be enforced and its violation by Persian Govt prevented.

6. I believe ur advisers share view strongly held by mine that Shah alone if only he will act with sufficient resolution has power to remedy situation both as regards eviction of Brit staff and replacement of Musaddiq by govt with which we can negotiate on reasonable basis. I am accordingly instructing HM Amb at Tehran to see him as soon as possible and urge on him in strongest terms necessity of taking immed action to prevent Persian Govt from proceeding with present intention in order avoid most serious situation arising between his country and UK.

7. I am convinced in this matter interests of UK and US march together. I earnestly hope therefore that you will agree that in this situation US stand firmly with us in opposition to this procedure by ultimatum and that ur rep at Tehran will be instructed to associate himself with representation which Shepherd is making. I am

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[6] For text of the telegram, Sept. 25, from Mosadeq to the Oil Board announcing the expulsion of British technicians from Iran, see *Documents* (R.I.I.A.) for 1951, p. 519.

sure only chance of preventing grave damage to interests both our countries and to long term interests of Persia itself lies in our taking firm joint action and letting world know that we are doing so."[7]

ACHESON

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[7] At 9 p. m. on Sept. 26 in telegram 1698, drafted by McGhee, Rountree, and Perkins and bearing McGhee's initials over the typed clearances of Secretary Acheson and President Truman, the Embassy in London was instructed to deliver President Truman's initial reactions to Attlee's message. The Embassy was to indicate that Ambassador Henderson was being instructed to support Ambassador Shepherd in his representations about the seriousness of the proposed Iranian action, that President Truman was pleased to see the British recognized the consequences of using force at Abadan, and that the President felt the British should come forward with some suggestion which would provide a basis for the Iranians assuming a more amenable attitude. (888.2553/9-2651)

No. 90

888.2553/9-2651 Telegram

The Secretary of State to the Embassy in Iran[1]

SECRET PRIORITY WASHINGTON, September 26, 1951—9 p. m.

656. Brit Amb handed Secy this morning msg from Attlee to Pres Truman, text of which transmitted immed preceding tel.[2]

Amb was told that altho we wld support Brit position to extent of associating USGov with Shepherd's representation as to seriousness of situation imposed by Govt's proposed action re expulsion remaining Brit personnel, we cld not do so in relation to his precise recommendations since we did not in fact know what they wld be.

In view urgency immediate approach to Shah on this question, earnestly hope appointment with him can be made today if possible. If feasible, suggest date for presentation credentials be moved forward; otherwise it may be possible to arrange informal mtg in advance presentation of credentials. Shah shld be advised along fol lines:

1. That USGov greatly concerned re proposed action of IranGov in forcing Brit personnel in Abadan to evacuate. Such drastic unilateral action wld cause unfavorable reaction against Iran in world opinion, wld aggravate already serious situation in Iran, and in all probability wld make impossible resumption of negots with Brit leading to amicable settlement of oil controversy. Expulsion of Brit

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[1] Drafted by McGhee and Rountree and approved by Secretary Acheson and President Truman. Repeated to London. The last page of the source text is initialed by McGhee and Perkins.

[2] Telegram 655, *supra*.

staff wld in our opinion make it more rather than less difficult obtain other competent fon technicians to replace them, and the technicians themselves, already trained and willing under suitable conditions to stay in Iran, wld probably be permanently lost. Shah himself is fully aware of consequences on economy of Iran of no early settlement looking toward resumption of production, refining and sale of oil. Severe measures proposed by IranGov wld be retrogressive step at time parties to controversy shld be seeking ways to find real solution.

2. That you recognize difficulties Shah faces in preventing expulsion order being implemented and do not wish advise him as to precise nature of action which he might take in circumstances. Nevertheless we hope that in light of gravity of situation he will be able take some effective action.

3. That while you are convinced Brit sincerely desire reach amicable solution to controversy, proposals thus far put forward by IranGov wld not provide reasonable basis for resumption of negots, and there is serious doubt that successful negots with Mosadeq are possible. It is most important, however, that Mosadeq not take any action which wld render it impossible for Iran and Great Britain to find solution through some successor govt if this in fact proves impossible with Mosadeq. While decision as to whether Mosadeq shld be replaced at this time is entirely up to Shah to make, he shld be strongly encouraged if he feels he is in position to bring this about.

4. That you recognize it might be easier for Shah to take action in relation to immediate problem of expulsion of Brit technicians and also that it might be easier to reach final settlement if some new element were injected into situation and ask for suggestions he might have which might make these easier. Particularly you might inquire whether he has any suggestion for next move which might result in resumption effective negots and indicate that we stand ready to assist in any way possible. This connection Shah may be told that US will assist Iran in obtaining agreement which wld eliminate any interference in internal affairs on part of oil co and one which wld provide to Iran net profit as high as that recd by any other country under comparable circumstances.

It is realized that urgent mtg with Shah may require some explanation to IranGov. It is suggested, therefore, that you also seek mtg with PriMin to discuss matter with him, and follow line suggested in para 1 above urging that PriMin reconsider his proposed action and take no steps at this time which wld further aggravate situation. You will know best how to deal with this aspect, but you may wish to tell Mosadeq that in view of great importance which US attaches to this matter you have been instructed to convey our concern to Shah as well as to PriMin.[3]

ACHESON

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[3] On Sept. 26 Secretary of Defense Lovett called Secretary Acheson to report that he had just been visited by British Air Chief Marshal Sir William Elliot, who "obviously had some sort of alert or warning from his General Staff or from British mili-

Continued

No. 91

888.2553/9-2651: Telegram

The Chargé in the United Kingdom (Holmes) to the Department of State[1]

TOP SECRET NIACT LONDON, September 26, 1951—6 p. m.

1527. For the Secretary. Makins, who is acting head FonOff, asked me in today to bring me up to date on latest developments in Iran crisis. He showed me: (1) PriMin's msg ex [*to*] President;[2] (2) instr to Shepherd to see Shah and to urge on him in firm but friendly terms absolute necessity his taking forthright action to stop order for expulsion of remaining technicians in Abadan; and (3) further instr to Shepherd to see Fatemi and protest expulsion order in strongest terms. Presumably all three docs have already been shown Dept by Brit Emb Wash.

Makins, who was present at last night's Cabinet comite mtg when decisions reflected in foregoing docs were taken, told me he did not know, however, whether opposition leaders had been consulted. In response to my question, he also said no decision has yet been taken re course of action HMG will pursue in event appeal to Shah is unsuccessful, but observed that Cabinet will have face matter squarely and that decision will probably lie in one of two alternatives: (1) voluntary withdrawal remaining technicians before Irans can forcibly expel them; or (2) use of force to maintain them in Abadan.

It is extremely difficult for Emb to predict at this point which Cabinet wld feel compelled to take. As msg to Pres makes clear, govt is faced with very far-reaching dilemma, which, we wish emphasize, is made even more difficult by imminence of genl election.[3] Expulsion order is alarming new factor which govt must confront squarely and urgently. Iranians have now forced showdown and hardcore Abadan, whatever its practical usefulness, has acquired tremendous symbolic significance. As Dept knows, Labor

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tary quarters, in connection with the ejection note." Elliot indicated to Lovett that the Iranian situation was headed for real trouble and outlined the problems of ejection or troop landings, along the lines set forth by Attlee in his note to President Truman. Lovett told Elliot: "the British are operating on bad intelligence, and think they can handle the situation, when in fact the danger is that they cannot do so any more successfully than they were able to handle the Arabian-Palestine situation." (Memorandum, Sept. 26; 888.2553/9-2651)

[1] Repeated to Tehran; received in the Department at 1:50 a. m. Sept. 27.

[2] Transmitted in Document 89.

[3] Oct. 25.

Govt has in recent months been more vulnerable from attack on ME than on any other phase of its foreign policy and it is not to be expected that conservatives will neglect any opportunity to drive home to electorate the already familiar allegation that Labor's hesitancy and weakness have been instrumental in decline of Brit influence, prestige and material stake in this critical area. It is our estimate furthermore, that this will strike responsible note among electorate. Today's press contains ample confirmation that genl tenor of feeling here is that UK can not supinely stand by in face this latest provocation. Moreover there are govt's recorded statements, which while carefully worded to preserve maximum freedom of action, are nevertheless widely interpreted as intention to hold Abadan by force if necessary. For example, Attlee during FonOff's debate July 30, while admitting there might have be withdrawal from "some part of Abadan", went on to say "our intention is not to evacuate entirely". Lord Henderson in Lords following day termed this as announcement "that we shld stay in Abadan" and added "in saying that, we accept all the implications that flow from that decision". While it is likely that Attlee and Henderson merely intended the foregoing as an expression of the govt's intention in the situation then prevailing, their statements have nevertheless been widely interpreted as a continuing commitment.

Under circumstances, we can see only two ways in which Labor Govt can resolve dilemma, either: (1) by endeavoring secure opposition agreement to voluntary evacuation of Abadan personnel (which wld undoubtedly have been accompanied by strongest protest and retaliatory measures); or (2) by holding on to Abadan by force and thereby obviating by deed Cons charge Labor Govt showed weakness. We do not believe that alternative (1) is practicable as we cannot see Conservatives, particularly in view their own most uncompromising stand on importance holding refinery, associating themselves with a policy which wld generally be interpreted here as virtually complete capitulation. It is our belief therefore that Labor in face latest Iran action, will find itself under strong compulsion to use force to maintain present nucleus of technicians in Abadan unless appeal to Shah successful and expulsion order rescinded. In final analysis, however, decision re use force will probably be largely influenced by US attitude.

There can be little doubt, however, that Labor Govt wld welcome way out present dilemma if it cld be accomplished without national and, incidentally, party consequences it fears. Appeal to Shah along lines Attlee's msg is only hope they feel they have. In view of far-reaching implications of voluntary withdrawal or use of force, I hope President will find it possible comply with PriMin's request to extent of doing everything possible at this critical juncture in making clear to Shah, Iran Govt and Iran people that we condemn expulsion order and that we strongly urge it be rescinded.

I wld like to add a final note of caution. There is a strong feeling in govt circles at the present time that the issue in Iran has been finally joined and, under these circumstances, that their friendliest and staunchest ally shld show its hand firmly and unequivocally in support of them. I fear very much that if the feeling becomes prevalent in Labor circles that we have failed them in their hour of need, some Laborites will, in order to explain their own failure, feel compelled to place blame on US. To my mind it wld be most unfortunate if any US-UK divergency on this issue were publicly aired in this pre-election period. I am not citing this as the principal reason why I feel we shld support the UK at this time, but I think it has an important bearing on the situation and should be kept constantly in mind.

HOLMES

D. The Anglo-Iranian Oil Company Dispute at the United Nations

No. 92

Editorial Note

On September 27 the British Cabinet discussed the oil question and took the following decisions on Iran:

1. The British were not prepared to authorize the use of force to maintain the staff at Abadan.
2. Because of the situation created by the expulsion order the British would refer the dispute to the United Nations Security Council after informing the United States.
3. The British staff should remain at their posts at Abadan and the question should be reconsidered at the end of the warning period.
4. No concessions should be offered Mosadeq.
5. The Shah should be informed that the British might make more acceptable proposals if they could deal with a more reasonable Iranian Government.
6. The Shah should be warned that expulsion of the British staff might lead the British to take more stringent measures to protect their legitimate rights and interests and these measures might further damage the Iranian economy.

A copy of these decisions was handed to Raynor just before noon on September 28 by Bernard Burrows, who also handed him a copy of a draft Security Council resolution which called on Iran to act in conformity with the International Court of Justice decision and in particular to allow the British technicians to remain in Iran.

(Memorandum of conversation; 888.2553/9-2851) For texts of the British resolution and the letter transmitting it to the Security Council, see U.N. Docs. S/2358 and S/2357 in *United Nations Security Council, Sixth Year, Supplement for October, November and December, 1951*, pages 1-3.

No. 93

888.2553/9-2751: Telegram

The Ambassador-Designate in Iran (Henderson) to the Department of State

TOP SECRET NIACT TEHRAN, September 27, 1951—10 a. m.

1180. From Henderson for McGhee.

1. Ala told me fol last evening personally and in extreme confidence:

(a) Shepherd UK Amb who had been trying see Shah for several days and who had finally been given appointment this afternoon 4 o'clock called on Ala yesterday afternoon. Shepherd informed Ala that under instrs from his govt he had made strong oral protest earlier in day to MFA against decision Iranian Govt to expel Brit oil experts from country. According to his note which he gave Ala Amb had on behalf his govt expressed to MFA "astonishment at drastic measures against Brit natls residing in Persia without any communication to HMG". Amb had further told MFA "Persian Govt bears full responsibility for consequences this decision which must have grave effect on Anglo-Persian relations. In circumstances HMG reserve full liberty of action". MFA had replied to Amb no communication to HMG had seemed necessary since latter must already have had notice intentions Iranian Govt Mosadeq had some time ago outlined program to Senate which had given approval; these experts had been unwilling enter into contracts with Iranian Oil Co and since AIOC was already defunct in Iran their presence Iran merely served render their replacement more difficult.

(b) Brit Amb told Ala he regretted delay seeing Shah because he had most urgent msg for Shah from Attlee. He gave Ala copy his instrs from Attlee which Ala showed me. Amb was instructed to inform Shah of seriousness with which Attlee regarded latest move Iranian Govt to state, "this will gravely affect relations between our two countries and have most serious immediate and long-term effect on Persia's econ as well as on her internal and external position". Amb was also instructed say that altho Attlee cld understand hesitation of Shah hitherto to intervene he thought Shah "must appreciate that political situation has now arisen which he alone can redress, and that if he does not act now situation may well be beyond our power of control or repair. I trust that he will take immed action to ensure that expulsion measures against Co's staff are not carried out". . . .

(c) Ala had discussed this conversation with Shah just before coming see me.[1] Shah was greatly perplexed as was Ala who did not know just what advice give. No doubt opposition to Mosadeq growing but Mosadeq crafty, resourceful, and effective rabble rouser. He might, by open denunciation of Shah if latter shld try intervene and by appeals to religious and national fanaticism, create such atmosphere that Majlis wld be completely cowed and Shah's position irretrievably ruined. He thought carrying out of expulsion order wld be unfortunate; elimination of Shah who was just now main stabilizing element in Iran wld however be even more disastrous. Already Mosadeq had demonstrated readiness to turn against Shah. He had recently sent Shah ltr charging Princess Ashraf with endeavoring rally opposition against him in Majlis and had informed Shah unless Princess wld refrain from political activities he wld be compelled publicly denounce her.

(d) Seyid Zia who had weekly audience with Shah had also talked with Ala during course of day. He had also told Ala he had advised Shah time had come for replacement Mosadeq. He (Seyid Zia) had no desire for polit office just now. He wld, however, give support Qavam or anyone else who might be named succeed Mosadeq. Ala had asked him if he wld serve in Qavam Cabinet and suggested at this critical time responsible Iranian polit leaders shld put aside personal ambitions and form govt together for good country. Seyid Zia said he wld not enter another's Cab but wld support any successor Mosadeq agreeable to Shah. . . . Ala thought, however, Qavam preparing succeed Mosadeq. Qavam extremely active and was even drafting statement criticizing present govt and making suggestions re Iran future policies. Ala was afraid, however, as Qavam was, Mosadeq by appeals to mob spirit cld out-maneuver him.

(e) Ala said Shah and he deeply worried re Brit intentions. Reports from Moscow and other capitals indicated some kind talks re Iran might be taking place between Brit and Russians. In past Brit and Russians had not hesitated sacrifice Iran for their selfish ends. Possibility cld not be ignored Brit might stir up violence in south, land troops to protect Brit citizens and property and let these troops remain there. Russians then with at least tacit approval Brit cld move into north Iran. One his purposes in coming to me was to ask me whom we knew to be friend Iran: (a) Did I think Brit might resort to force against Iran? (b) what in my opinion shld he advise Shah do or not do in circumstances?

2. I told Ala I of course no position say what Brit wld or wld not do given circumstances. I was confident however, UK as loyal sin-

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[1] On Sept. 28 Henderson reported that Shepherd had given him a copy of Attlee's message to the Shah on that afternoon and had told him that the Shah took the position that "now was no time to intervene." Shepherd also told Henderson that the British Cabinet had decided to take the case to the U.N. Security Council and repeated that, in his opinion, it was useless to attempt to deal with Mosadeq. (Telegram 1205; 888.2553/9-2851)

cere member UN wld do nothing contrary spirit UN Charter even though Iran chose ignore findings Intnatl Court. Undoubtedly individual Britishers perhaps even some officials favored use force. I was sure, however, Brit Govt itself wld not tolerate use force except possibly protect UK nationals in case they seemed be personal danger.

3. Ala said language used by Brit Amb was that traditionally employed when force contemplated. Was there no danger that certain Brit agents might themselves promote violence Khuzistan so that UK wld send in troops protect its citizens?

4. I said I did not believe any serious danger this kind existed. Important, however, Iran made sure all foreigners in Iran just now receive full protection.

5. Re Ala's second question difficult for me suggest kind of advice he shld give Shah. I still novice in Iran; he knew internal conditions, Iranian frame of mind, possibilities and difficulties better than I. Did Shah and he consider it wld be in interest country for Mosadeq to be replaced just now?

6. Ala said it had been hitherto opinion Shah preferable that Mosadeq himself be responsible for such agreement as might be made with Brit so that he and other extreme nationalists wld not be in position later to attack it. In view Brit apparent determination not deal further with Mosadeq and latter's determination to go ahead with his plans regardless of effect on Iran, Shah and he both believed it wld be better Mosadeq get out now. Wrong move on Shah's part, however, cld be disastrous.

7. I said if responsible leaders Iran considered it wld be country's interest for Mosadeq be replaced seemed to me they shld take action among themselves and not wait for Shah to endanger his position by personal intervention. Ala, Min Court, somewhat handicapped since Shah wld be held responsible for his actions, nevertheless there must be other statesmen who at this critical time wld put interests country over their own polit ambitions. Were there not polit leaders who wld dare openly say that interests Iran demanded that if possible arrangements be made with Brits whereby under Iranian auth and scrutiny Brit specialist experienced in Iran cld produce and distribute Iranian oil on terms which wld be advantageous both to Iran and to UK as well as world econ? Such leaders cld denounce to their hearts content past interference AIOC in Iranian internal affairs and insist any future arrangements must provide guarantee against further interference but at same time they cld point out Iranians merely hurting themselves if they fail make every effort utilize services specialists already acquainted with peculiar problems of producing and distributing Iranian oil. I thought Brit arguments that they cld not effectively op-

erate in Iran except through companies which had Brit manager and certain degree autonomy had much validity. It was in my opinion possible for companies this kind to exist and operate under restrictions which wld render it extremely difficult for them engage in other than tech and purely commercial activities. Naturally in course of time Iranians themselves would want to take over from Brit. Length of period of Brit tech control and manner of distributing of profits cld be matters of negot. Factor of amount of compensation due Brit and method discharging debt might well affect decision both these questions. Cld not some responsible Iranian statesmen come forward with sobering suggestions this kind.

8. Ala replied he thought that perhaps they cld. Qavam was person take leadership. Ala had already talked with Sadr Fakhr Hekmat, Speaker of Majlis who was Qavam man and Hekmat was considering possibility asking that Majlis hold secret session on Sept 27 to discuss national situation. Hekmat hoped during such session gauge and mobilize such latent opposition as existed. . . .

9. I again stressed that during our conversation I had merely been thinking aloud. I was not speaking for my govt but was only trying express some of my own ideas. I was grateful for confidence he had displayed in me which I hoped he would find had not been misplaced. He cld be sure what he had told me wld not be passed on to any other govt.

10. Regret length this tel. Present situation such it difficult for me move in direction that I conceive be our objective without action on my own judgment on spot without awaiting instructions. Therefore like for Dept know considerable detail what I am doing and circumstances prompting me.

[HENDERSON]

No. 94

888.2553/9-2751 Telegram

The Ambassador-Designate in Iran (Henderson) to the Department of State

TOP SECRET PRIORITY TEHRAN, September 27, 1951—5 p. m.

1191. Personal from Henderson for Secretary, Perkins and McGhee.

1. I am sure Department will never give in to pressure which apparently is being exerted on US in order to prevail upon it to acquiesce in use by UK of force or threat of force in order attain certain ends in Iran. No matter how disastrous to free world it might

be for UK to be driven permanently out of oil fields Iran or how resentful British public might feel towards US if it fails to acquiesce, fact cannot be escaped that entry into Iran by armed force UK this juncture, except perhaps temporarily for bona fide purpose rescuing and escorting from country UK nationals in actual physical danger, could not be considered other than act of armed aggression.

2. Our whole foreign policy for last five years has been based on opposition to aggression. We have given tremendous amounts financial assistance to various nations to enable them better to resist aggression; we have sacrificed American lives and resources and have persuaded other nations make similar sacrifices in Korea in order to discourage acts of aggression. If now we acquiesce in action smacking of aggression on part our ally and friend, we shall stand before world stripped of all pretense to idealism and obviously guilty of grossest hypocrisy. We shall have thrown away banner of principle around which we have thus far been able rally most nations of world.

3. My concern at this pressure is not due so much to fear that we might yield to it as to realization that its existence indicates there is wide divergence between our approach towards present world problems and approach of those applying pressure.[1]

[HENDERSON]

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[1] Upon receipt of this telegram the Department of State cabled Henderson that its substance represented the views of the United States on the subject. (Telegram 663 to Tehran, Sept. 27, 10 p. m.; 888.2553/9-2751)

No. 95

888.2553/9-2851: Telegram

The Ambassador-Designate in Iran (Henderson) to the Department of State

SECRET NIACT TEHRAN, September 28, 1951—7 p. m.

1208. From Henderson.

1. Accompanied by Stutesman, I called on Mossadeq this afternoon. Our talk lasted approx hour. I referred our previous conv[1] and said my govt did not believe it wld serve any useful purpose for it to endeavor to persuade the Brit Govt reconsider its decision that proposals contained in Ala memo[2] did not offer basis for re-

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[1] See Document 88.

[2] Regarding the Iranian proposals on Sept. 19, see Document 86.

sumption of negots. I added my govt deeply concerned at his recent order for expulsion Brit personnel from South Iran and proceeded to present Dept's views as set forth in appropriate sections Deptel 656 Sept 29 [*26*], 9 p. m.[3]

2. When I had concluded my statement, Mossadeq, who became progressively more grim as I talked, merely said: "I have nothing to say." I told him that I had come to him as friend of Iran and had talked to him as friend. I was sure he had something on his heart and hoped he wld be as frank with me as I had tried to be with him. He replied that words I had uttered did not help the situation in the slightest. "Hungry stomachs have no faiths; if it was true Iran cld not successfully exploit its oil without Brit tech assistance, then revolution must follow; we have made our proposals to Brits and we will go no further; the order for the expulsion of Brit techs will be carried out." He then launched into a long exposition of alleged fraudulent activities of the Co during last 40 years. He showed a chart to prove failure of Co carry out its obligations. I told him it not my intention defend Co for its past practices; I was merely trying point out that in opinion my govt—an opinion I personally share—it wld be extremely difficult company in near future to realize any profits from oil if it dispensed entirely with services, Brit tech personnel experienced in Iran.

3. Mossadeq said he was confident Iran with help of non-Brit oil experts cld profitably exploit its oil; if he was wrong, country wld not be any worse off than it had been in past, since most of funds which Iran had recd from Co had been spent for mil purposes and, in his opinion, wasted. The oil cld remain in ground for use some future generation.

4. I said I found myself in disagreement with him; I did not believe present generation in Iran wld be content with present lot; it wld insist on higher standards of living and any Iran Govt which did not offer some prospect of econ development wld have difficulty in surviving. He agreed, adding that in past Iran had endeavored to fol democratic way in cooperation with democratic countries; if demo countries no longer willing to help Iran, country wld be free go any direction which might be open to it.

5. I said I did not know what prompted this remark. There had been no indication from my govt that it wld not be prepared to try aid Iran just because Iran Govt refused to accept its advice. I did believe, however, that such assistance as Iran might obtain from US wld be much less effective if Brits were driven out.

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[3] Document 90.

6. Mossadeq said he was grateful for US aid in past year preserving sovereignty and integrity Iran; he was also appreciative of help we were now giving, such as aid in control of locusts,[4] etc.

7. I gained impression from this conv with Mossadeq that his hatred for Brits had become almost implacable and now preferred that they get entirely out of Iran; that he wld prefer to take chance on obtaining and utilizing foreign techs than to have further dealings with Brit Govt or AIOC.

8. Altho at times during our conv Mossadeq showed considerable irritation, we parted, nevertheless, on good terms. I believe that he still feels the US wld like to help him and Iran.

9. It was agreed his conv was on strictly personal basis and contents wld not be divulged other govts or press.[5]

[HENDERSON]

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[4] Documentation on U.S. aid to control locusts in Iran is in file 888.22.

[5] Henderson saw Ala during the morning of Sept. 28 and indicated the statement which the Department wished him to make to the Shah. Ala felt that the time had not yet come when the Shah could act, but told Henderson that he had endeavored to impress Mosadeq with the seriousness of the situation. (Telegram 1204 from Tehran, Sept. 28, 3 p.m.; 888.2553/9-2851)

No. 96

888.2553/9-2851: Telegram

The Secretary of State to the Embassy in the United Kingdom[1]

TOP SECRET WASHINGTON, September 28, 1951—9 p.m.
PRIORITY NIACT

1740. Fol msg from Dept to FonOff supplements Pres msg Sept 26 to Attlee.[2] Pls deliver soonest:

"As pointed out in the President's brief reply of Sept 26 to the Pri Min's msg dated Sept 25,[3] the Dept feels that to arrest the present rapid deterioration of the situation in Iran some new element must be injected. We are gravely concerned that unless this is done at once conditions in Iran will soon reach a stage where there is imminent danger that the country will be lost to the Western world. The Dept has, therefore, noted with satisfaction that decisions taken by the Brit Cabinet on Sept 27 indicate that the Brit Govt is thinking along these lines. Recognizing the urgency with which precise action is required, the fol suggestions are put forward in the hope that they will be useful to the Brit Govt:

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[1] Drafted by McGhee and Rountree; cleared by Webb, Perkins, Nitze, Harriman, and the White House; and repeated to Tehran.

[2] See footnote 7, Document 89.

[3] Transmitted in Document 89.

One of the fundamental difficulties in deciding upon what course of action wld be most effective is the improbability of arriving at a satisfactory settlement under existing circumstances. It obviously wld be much easier to find a solution if a more reasonable govt cld come to power under conditions which wld permit the Brit to undertake negotiations on a realistic basis. The Shah recognizes this fact, but it is extremely difficult or impossible for him to assume responsibility for installing a new govt before this can be brought about by natural political changes in Iran. If this shld be done prematurely, there is great danger that the Shah himself wld be overthrown, in which case the last element in Iran on which the Western world can rely wld be lost. Moreover, there is no proof that Dr. Mosadeq, as leader of the opposition to any successor govt, cld not thwart any agreement which his successor wld endeavor to make For these reasons it is considered unlikely that the Shah will decide to force the resignation of Dr. Mosadeq until there is ample evidence that such a move wld be successful. The U.S. believes, moreover, that obvious fon efforts to bring about the fall of Dr. Mosadeq's govt have the contrary effect of strengthening his position, and nationalistic elements might use such intervention as an argument against reaching a new oil agreement with Brit interests.

It wld appear that the Mosadeq govt, with little regard for the practical aspects of the oil industry, has consistently attempted to work out some solution to the problem which will give Iran control over and a larger share in the earnings from its oil industry and prevent a resumption of the economic and political hold on the country which the Iranians, rightly or wrongly, have attributed to the AIOC. Fol rejection by the Brit of the recent overtures put forward by Dr. Mosadeq, it is unlikely that he will take any further initiative at this stage.[4] It wld, moreover, be difficult for the Shah or other moderate elements to take effective initiative, unless they have a new basis for doing so.

The Dept believes it highly advisable that the Brit Govt maintain constant efforts to convince the Iranian people that it is trying in good will to find a solution which will be acceptable to Iran. Such a continued approach wld disprove Dr. Mosadeq's claim that the Brit are opposed to a reasonable settlement, wld weaken Dr. Mosadeq if in the light of the Brit attitude he is unable to reach a settlement, and wld make it easier for the emergence of a successor govt willing to make an agreement.

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[4] Regarding the Iranian proposal of Sept. 19 and the British rejection on Sept. 22, see Document 86.

It is recognized that the Brit Govt wld find it difficult to come forward at this time with new proposals which might be interpreted as weakness towards Dr. Mosadeq, especially if they shld be publicly rejected by him. A possible course of action which wld meet this objection and at the same time wld inject a new element into the situation by giving the Shah something which he can use to bring about an improvement in the situation, wld be through an informal approach in Tehran.

If the Brit Govt shld desire, the Dept wld be prepared to have the American Amb indicate to the Shah the US willingness to endeavor to obtain undertakings from the Brit along certain lines indicated below, provided the Iran Govt was prepared to accept them as a basis for beginning negotiations on a reasonable basis. It is possible that even though the 'feeler' might be rejected by Dr. Mosadeq when the Shah discusses it with him, it cld be used to advantage by the Shah in strengthening the moderate elements. Before making the approach we wld, of course, have to be assured that the Brit Govt wld be prepared to agree to the proposals if the Amb's efforts shld prove successful. The advantage of this arrangement wld be that if he shld fail no formal announcement or communication wld have been made by the Brit.

It seems to us that there are three important points on which you cld give the Iranians assurance, without impairing your fundamental position, which might enable the Shah and the moderate elements to have a real prospect of success in creating a situation which wld make a settlement possible:

(a) We are convinced that the primary concern of the nationalist elements is that Iran must gain control of her natural resources and end fon interference in the internal affairs of Iran which they attribute to the AIOC. There is a widespread fear that, if an agreement is made with the Brit relating to the operation of the oil industry within Iran, the AIOC wld simply be continued under a new name. In order to dispel this fear, it is suggested that the Brit Govt agree to the substitution of Anglo-Dutch interests for the provision of management of operations within the country, with a Dutch or other neutral General Manager. Suitable settlement cld, no doubt, be worked out between the two oil interests. It cld be emphasized that adequate arrangements wld be made to assure that such management (whether under an operating contract or as an integral part of NIOC) wld operate under the general direction of the NIOC and that the AIOC wld be removed from operations within Iran.

(b) An appealing feature of any new proposals wld be some arrangement by which the immediate financial problems with which the country is confronted wld be solved. The Brit might, therefore, agree to undertake as an interim measure, immediately upon the resumption of negotiations with the Iranian Govt to buy and transport oil and products now available in Abadan under an arrangement whereby 50% of the Persian Gulf value of the oil wld be paid to the NIOC, the other 50% to be retained in a special account until final arrangements are made. Purchases wld be made not by AIOC per se but through its transport organization. Simple receipts might be made to the NIOC, with the understanding that these interim arrangements adopted as a *modus vivendi* wld not prejudice the position of either side regarding shipments of oil after a settlement has been reached.

(c) The Iran Govt has claimed that under the latest Brit proposals Iran wld receive net revenues less than under the financial arrangements offered to the Razmara govt. As a means of counteracting this, the Brit Govt might give assurances that under the arrangements to be worked out Iran wld receive from its oil a net share as high as that recd by any other country under comparable circumstances.

The Dept has put forward its views on this subject at length and in a frank manner in an effort to be helpful in this grave situation. It fully realizes the very real problem with which the Brit Govt is confronted and the difficulty of the decisions which must be made. It is believed, however, that the action proposed herein will be much less difficult than arrangements which might have to be considered if the situation deteriorates further. The US will continue to use its full influence in an endeavor to bring about a peaceful solution."[5]

ACHESON

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[5] On Sept 29 Gifford reported that he had delivered this message to the Foreign Office whose first reaction was that it would not be inflexible to suggestions a, b, and c, but that Shepherd had already given the Shah assurances of more favorable proposals if Mosadeq were replaced by a more reasonable government. (Telegram 1574 from London; 888.2553/9-2951)

No. 97

888.2553/9-3051: Telegram

The Acting Secretary of State to the Embassy in the United Kingdom[1]

TOP SECRET WASHINGTON, September 30, 1951—noon.
PRIORITY NIACT

1754. For Amb and Holmes. For ur info and guidance in event raised with you by Brit fol describes discussions here past 48 hrs re UK-Iran SC case.

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[1] Drafted by Raynor, cleared by GTI, and repeated to Tehran, Moscow, Paris, and New York.

UK Emb informed Dept Thurs night[2] Cabinet decisions shortly before noon Fri. Before Dept had opportunity give Brit our views re SC actions public announcement made by UK 5:30 p. m. Fri our time.

Sat afternoon Franks called in and informed Dept felt SC action at best questionable and type of res UK had in mind might have extremely unfortunate results.[3] Major reasons Dept advanced were: (1) Sovs bound veto such res. Veto per se not of particular concern but on this case for first time Sovs wld have a popular veto and wld be handled opening for effective ideological propaganda campaign which we viewed with great concern. (2) In our view seven votes cld not be obtained for UK res.[4] Even assuming US cld vote for it which we did not want to do, and UK itself permitted to vote we cld see only six votes. We believe fol states shld be classified as against or certainly as doubtful: USSR, Yugo, China, Turkey, India. (3) Even assuming seven votes cld be obtained we felt UK res wld be mistake for fol reasons: (1) Sov veto and consequent propaganda advantage cited above; (2) Iran wld defy res; (3) while question not major point, passage of additional res by UN which not carried out adds to moral decline UN; (4) It wld certainly freeze Iran position thus going far to making further negots impossible and it wld probably strengthen position of Mosadeq as he wld pose as champion of Iran against world; (5) as corollary it would throw Iran in position of being defended solely by Sov Union.

We handed to Franks a res text of which communicated in Deptel 1747[5] of type which we thought might have chance of being adopted in SC and which if adopted might be turned to constructive end.

Franks adopted attitude of not being impressed by our reasoning but said he was not sufficiently familiar with background of London reasoning behind form of res suggested by London to debate question with us. He concentrated on developing our reasons so he cld report them accurately and in best possible light to London. He prophesied that our views wld receive poor reception in London and he was apprehensive of cumulative effect of this plus gen approach made on Fri.

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[2] Sept. 27.

[3] A memorandum of Franks' conversation with Hickerson, Perkins, and Raynor is in file 888.2553/9-2951.

[4] Seven votes were necessary to place a question on the agenda of the Security Council.

[5] Telegram 1747 transmitted the text of a draft resolution that called on the United Kingdom and Iran to resume negotiations at the earliest possible moment and to refrain from aggravating the situation. (888.2553/9-2951)

Franks was informed that in view inquiries being recd by USUN we had no alternative other than to instruct them to answer inquiries from other dels along lines above described position.

In conversation it was hinted to Franks that we might be willing send msg to Mosadeq exhorting him not to take action on expulsion order while case under consideration in SC, pointing out that Iran has been a great beneficiary of UN.

WEBB

No. 98

888.2553/9-3051: Telegram

The Ambassador in Iran (Henderson) to the Department of State

SECRET PRIORITY TEHRAN, September 30, 1951—5 p. m.

1215. Fol presentation my credentials morning September 29, had forty minute chat with Shah and MFA. Apparently in view presence MFA, Shah steered conversation away from oil dispute; stressed urgent need Iran for econ development; appreciation of such support US had given Iran in past etc. He mentioned his keen disappointment at outcome his trip to US;[1] he had hoped his visit wld assist in interesting US Govt and people more deeply in Iran and in helping them understand how important it was for future Middle East and world peace for US aid Iran in carrying out its program econ development. He had hoped he cld contribute to US realization that no matter how much US resources and energy were poured into Eur and FE, free world wld continue to be in danger so long as there was weak, backward and vulnerable Iran. For years fol Tehran conf Iranian people had thought their hope for future lay in free world. They had been expecting US wld take lead in helping them improve their lot. Much disillusionment particularly had followed his visit to US. Since his return, Tudeh Party and other groups who looked to Russia rather than free world had been growing in strength. There had also been unfortunate increase in anti-foreign, particularly anti-Western sentiments. He still hoped that US wld come to Iran's assistance before it was too late.

2. I told Shah US Govt and wide sections US people had long realized importance Iran and had desired and still desired help it become prosperous, progressive, self-respectful country—politically, economically independent. US resources were not however, inex-

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[1] For documentation on the Shah's visit to the United States, Nov. 16–Dec. 30, 1949, see *Foreign Relations*, 1949, vol. VI, pp. 471 ff.

haustible. it cld not distribute these resources recklessly; it also cld not carry econ burden whole world at one time; it, therefore, had been compelled concentrate its econ aid those areas which seemed to it at time to be in greatest danger and which cld make most effective use assistance extended to them. I thought sitn was developing which wld make it possible for US give more assistance than hitherto to Iran. US public opinion wld not however, permit assistance be given unless convinced country receiving such assistance wld be simultaneously doing everything it cld to help itself. It cld not be overlooked that technique and materiel from abroad cld, if effectively used, help Iran but future of country must rest basically on industry, initiative, public spiritedness and integrity Iranian people and on enlightened leadership Iranian statesmen.

3. Shah concurred. He expressed his concern at tendencies middle class intellectuals, particularly youth, to turn towards communism. He asked if we had similar problems in US. Our talk was friendly and informal and I had impression in spite his disappointment at our past failures to live up to Iran expectations in matter of aid, he still regarded US as Iran's greatest hope for future.

4. My talk alone with Shah late yesterday afternoon lasted more than hour. It was devoted almost entirely to matters connected with current crisis arising out of oil dispute. Shah did not try hide his great anxiety and his distress at what he seemed to consider his helplessness in sitn. Again and again in seeming despair he wld say "But what can I do; I am helpless." He said if there was any real opposition to Mosadeq's oil policy, it was not organized and apparently did not dare speak out. Some of older Iranian statesmen including Qavam were telling him if he wld remove Mosadeq they wld try form govt. They refused, however, themselves openly to oppose Mosadeq. Their idea was apparently to move in if Shah shld be successful in ousting Mosadeq but not to lift finger if Shah's efforts shld fail. Shah insisted national sentiment was aroused against Brit and had rallied behind Mosadeq as valiant defender Iran's interests. Mosadeq had been greatly strengthened as result rumors Brit might use force in south; he had during afternoon recd emissary with msg from Broujerdi, most influential ecclesiastic in Iran, stating that all Iran must stand together in face Brit threats and if Brit shld invade Iran, country must present solid front. This msg from high conservative ecclesiastic of greatest significance. It meant that those religious circles which in gen were opposed to rabble-rousing were aligning themselves with govt at least on oil issue. Unfortunately msg had been delivered in presence number persons and was already probably circulating in bazaars where it wld have great impact. Announcement of Brit to take dispute to SC made it still more difficult remove Mosadeq who was already

saying he wld appear personally before SC to defend Iran if health permitted. If Shah shld now replace Mosadeq, latter's friends cld tell sympathetic public Shah wld not allow Iran's best champion defend it in SC. "Brit tell me there shld be strong man and take resolute action, but these so-called strong men like my father, Hitler, Stalin, etc. took resolute and bold action when they knew that natl sentiment was behind them. They never moved against basic feelings their peoples. In this case natl feelings Iran are against Brit in oil matters; these feelings have been inflamed by demagogues; no matter how strong and resolute I may wish to be, I cannot take unconstitutional move against strong current natl feelings. What slogans have I to change this time? Can appeals to balanced budgets and increased natl incomes have much effect when deep national passions have been aroused? I know that Mosadeq's policies are leading Iran towards ruin; I realize that in spite of Brit exploitation and even betrayal at times of us in past, we must have Brit friendship and support if we are to survive as independent country; I am aware that if Brit turn against me personally our Monarchial system, which in my opinion is main stabilizing influence in country, can collapse; but what can I do? I am convinced that attempt my part remove Mosadeq just now wld give his friends and my enemies opportunity convince Iran public that Crown has degenerated into mere Brit tool and such prestige as Crown has wld disappear. Only hope as I can see it is for Mosadeq either to become more sober and reasonable or for him to make so many mistakes that responsible leaders of Iran will overthrow him in Majlis. This hope will not however, appeal to Brit Amb who is seeing me this evening. When he learns I do not feel I shld try dismiss Mosadeq just now he will be furious and his govt may turn against me."

5. I told Shah I was not insisting on his removal Mosadeq. He knew better than I what he might be able or not be able to do. It seemed to me, however, that Iran's position was growing daily more desperate and in end it might be necessary resort desperate remedies. I wld like to keep in touch with him; if later I had any suggestions to make to him I hoped he wld understand they were made solely for purpose saving Iran. Shah said he wld like to see me from time to time. At present he did not know where to turn.

6. Shah said he was trying to prevail on Mosadeq be more reasonable. He had, therefore, sent Ala to him on preceding day and Ala had reported Mosadeq had talked in supposingly restrained manner. Shah hoped that US or UK might offer some suggestions which wld again open door. Unfortunate Brit had so rudely rebuffed his own last overtures.

7. Ala telephoned me last evening tell me he was still hoping msg from Broujerdi not authentic. He was checking and would let me know results.

HENDERSON

No. 99

888.2553/10-151: Telegram

The Ambassador in the United Kingdom (Gifford) to the Department of State[1]

TOP SECRET NIACT LONDON, October 1, 1951—6 p. m.

1581. I am increasingly concerned at divergency which has developed in last few days between Brit and ourselves re nature of res which wld be put before SC on Iran. As we have endeavored for some time to convey in ourtels, feeling is running very high here both in govt circles and in country at large on whole Iran issue. Altho decision to refer matter to SC has been taken by govt and accepted by country at large and talk of force has temporarily at least receded into background, I do not see how govt can agree to or acquiesce in a res which does not express or imply moral condemnation of Iran for expulsion order.

In conversation with Holmes today, Makins, who is acting head of FonOff, strongly represented cab mins' consternation at stand we have taken re Brit draft res. Makins added that French have promised them unqualified support of Brit res. Dept is, of course, already aware of this from Morrison's personal msg to Secretary[2]

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[1] Repeated to Tehran.

[2] On Oct. 1 Ambassador Franks left the following message signed by Herbert Morrison and dated Sept. 30, for Secretary Acheson:

"My Dear Dean: I do not doubt the sincerity of the motives underlying the United States proposed Resolution in the Security Council on the Persian question, but I am bound to say that I am deeply concerned by its implications. I feel rather strongly that it is out of harmony with the friendly and understanding talks we had in Washington. We have honourably abided by The Hague decision and I do not like, after all our efforts for a peaceful and not ungenerous solution, being put into the dock together with Dr. Musaddiq. You know full well the efforts I have made in this country towards a close alignment of the policies of our two nations and at times it has been a difficult task—and there is no doubt that British public opinion would strongly resent the imputation in the United States Resolution if they heard of it. I ask you most earnestly as friend to friend to take this into account and to reconsider the United States proposal. America will surely not refuse to stand together with us in seeking to uphold through the United Nations the rule of law which has been our guiding principle in this issue."

In a memorandum dated Oct. 1, Perkins stated that Ambassador Franks told him when he left the message that the British were withdrawing their technicians from

Continued

and from Franks conversations in Wash. I do not want to give impression of arguing Brit case, especially since I think their draft res leaves much to be desired,[3] but neither do I think ours goes far enough. Whatever earlier history of this dispute may have been and whatever Brit failings (and they have undoubtedly been many), it seems to me that they have on whole conducted themselves responsibly in recent months and whatever their inclinations may otherwise have been, have deferred to our views at number of crucial points. But we have now reached point where it seems to me there is clear-cut issue before us: Do we condemn or at least imply condemnation of Mossadeq for his continued irresponsibility or do we in effect condone it by associating ourselves with a res which attaches no blame and treats both parties equally?

The Brit say we have counselled against the use of force and now, in the next breath, we deny them support when they seek to obtain a judgment from the SC based on the rule of law. They are hurt and bewildered at this attitude of their main ally. It is no good talking to them about the parliamentary sitn in the UN; they feel that they are right and that if we would simply back a strong res such as they have in mind, they are confident that it wld command the necessary seven votes. Similarly, it is no good talking to them about the veto; that is a risk they point out we run in almost any important substantive matter before the SC. It is no good talking to them about possibility of a strong res strengthening Mossadeq's hand, they maintain that a moral condemnation of Iran will make the Iranian people think twice as to where their action thus far has taken them and will therefore strengthen the hand of the opposition.

I feel confident that the Dept appreciates domestic significance of this problem in this pre-election period. This is no time for Anglo-Amer divergencies to become apparent on a question to which so much moral importance is attached here. Nor is it any time to risk weakening confidence of those who believe in workability of Anglo-Amer alliance.

I hope most earnestly that Dept may be able to give urgent consideration to these points with a view toward evolving new res which avoids what I consider needlessly provocative tone of Brit

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Abadan and that this made the U.S. draft resolution less appropriate and the British draft resolution more appropriate. Bearing this in mind, Perkins told Franks that the Department of State would instruct its representatives at the United Nations to discuss the proposed resolution with their British counterparts with a view to working out the best possible draft. The text of Morrison's message and Perkins' memorandum are attached to a memorandum from Webb to Perkins, dated Oct. 2, in file 888.2553 AIOC/10-151.

[3] Regarding the British draft resolution, see Document 92.

res and, at same time, weak nature of ours. I wld suggest that such res might call on govt of Iran to signify, as UK govt has already done, its willingness to act in conformity with provisional measures recommended by ICJ, or, failing this, to work out with UK Govt temporary measures acceptable to both parties and, in meantime, to suspend its order expelling Brit staff from Abadan. I have no knowledge as to whether foregoing suggestion wld be acceptable to Brit. It may or may not be worthy of consideration but essential point is we must in my opinion take a stronger position in support of Brit than our draft res provides.

GIFFORD

No. 100

888.2553/10-251

The Acting United States Representative at the United Nations (Gross) to the Assistant Secretary of State for United Nations Affairs (Hickerson)

TOP SECRET NEW YORK, October 2, 1951.

DEAR JACK: As you know, I have been thrown rather heavily since Friday last into the Iranian problem, and I am grateful for the competent assistance which the Department has made available through the presence here of Rountree, who has given me a complete and excellent historical analysis of the matter.

I spent several hours yesterday with Gladwyn Jebb and Middleton, Counselor of the British Embassy at Tehran, who has accompanied Gladwyn to New York. Jebb showed me the personal message from Mr. Morrison to the Secretary.[1]

The night before last I spent the evening with Sir B. N. Rau, on his invitation, and he discussed the matter on the basis of his own appreciation in the light of a conversation he had had earlier in the day with Entezam.

On the basis of all the foregoing and in light of the developments in the Security Council meeting yesterday, I feel compelled to send you the following personal reflections which, whether or not they are useful, will at least take them off my mind.

The central question in my mind is, of course, what the theory of our approach is, where we want to come out, and what we think the UN can or cannot do to help us achieve our objective. I am aware that recourse to the Security Council by the British and the theory of their approach were unilateral decisions of which we were advised after the fact. It appears also that the British obtained commitments of support from the Dutch and French Governments, neither of whom consulted with us in advance. The question is where we go from here and why.

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[1] See footnote 2, *supra*.

On the basis of my talks with Jebb and Middleton, and in the light of Rountree's analysis of the background of the dispute, I think it understates the matter to say that we have little reason for confidence in the British approach to the whole issue, either past or present.

Jebb admitted to me that the overriding consideration, from the point of view of the present British Government, is the intense domestic political pressures. The press and public in England are screaming for "action" and the opposition is watching every move waiting to pounce He and Middleton reflect an almost shocking defeatism. The latter went so far as to say the Anglo-Iranian company has virtually decided to give up their investment and turn elsewhere. They feel there is no hope for further discussions with Mossadegh.

The British give me the impression of singing the last act of "The Twilight of the Gods" in a burning theater. Jebb admitted he had no idea, and doubted whether the British Government had any idea, what would be expected of the Security Council if it adopted a resolution along the lines of their proposal and Iran refused to comply. At the same time he admits there is virtually no likelihood that Iran would comply.

The present British course is not a deliberately chosen one, but one coerced by an inflamed public opinion in an election year. If followed through, I do not see how it could have any effect except to make "fences" out of the purchasers of [illegible] pirates out of Iranian tankers, and Communists of the Iranian people. The UN would be demeaned in the process and its authority shaken.

You will not be surprised to learn that Tsarapkin was smiling yesterday like a Cheshire cat.

I am convinced that the only hope is to take action now which might lead to a resumption of negotiations. A resolution based upon the British approach (or lack of approach) would build a stone wall. I do not think it matters very much whether in my further discussions with Jebb we proceed on the basis of modifying his draft or ours.

The point is that we should insist upon a resolution *based upon our theory*, that is, one which encourages negotiation and does not make judgments.

Of course, I am not competent as to the detail of such negotiations or who should participate in them, and I would not venture to comment upon that. It may be that further negotiations would be fruitless. I don't think that is the question, since no other alternative appears which promises to yield anything but disaster.

What is of decisive importance to the British as well as to ourselves is that the British remain in a negotiating posture and refrain from themselves placing impediments in the way of continued negotiations.

On the basis of our exchange of telegrams (USUN No. 397, Oct. 1,[2] and Deptel No. 165, Oct. 1,[3] which apparently crossed mine) I do not think we are far apart except in what I consider to be a decisively important distinction, and that is on the question of including in a resolution a call upon Iran to suspend the expulsion order pending outcome of negotiations. I think this would be the acid in the mixture that would make the whole resolution corrosive. I urge the Department to reconsider this point.

Following the Security Council meeting yesterday I talked with Ardalan and urged him to advise Mossadegh that it was the sense of the Council that it would be of great importance for Mossadegh to come. Ardalan said he would do so. He pleaded with me to keep open the door to negotiations, insisting that if Mossadegh should come he would genuinely want to find a solution. I realize that Ardalan, like Entezam, is of the reasonable and friendly school, but those are the people upon whom we will have to rely nowadays in dealing with people like Mossadegh.

One cannot help feeling sympathy for the British in such an hour of trial, but I think we can help them and ourselves by a patient and moderate course, whatever their sense of provocation and frustration.

Since dictating the above, I have seen Loy Henderson's telegram (Tehran's No. 1236, Oct. 2[4]). I am struck by the similarity of his recommendations with those I made personally to Jebb yesterday, as reported in USUN No. 397, Oct. 1.

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[2] In telegram 397 Gross reported that he had suggested changes in the U.S. draft resolution that would take note of the Iranian expulsion order and which would meet the British accusation that the U.S. draft put the "UK in dock along with Iran." (888.2553/10-151) The draft resolution was transmitted in telegram 162 to the Mission at the United Nations, Sept. 29. (888.2553/9-2951)

[3] Telegram 165 reported that the British would announce on Oct. 1 the withdrawal of their personnel from Abadan. Since this announcement would make it clear that the British had abandoned the idea of using force in Iran, the United States was now disposed to support in principle a resolution along the lines of that drafted by the British. (888.2553/10-151)

[4] In telegram 1236 Henderson reported that he had just read the text of the British draft resolution and stated that if the United States felt compelled to support some kind of resolution, it should be an innocuous one which might call upon both parties to resume negotiations and take no measures which would render more difficult the success of such negotiations. (888.2553/10-251)

I would appreciate it if you would make this letter available to the Secretary or be good enough to make sure he is advised of its substance. I am sending a copy to George McGhee and to Averell Harriman[5] for their information.

Sincerely yours,

Ernest A. Gross

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[5] On Oct. 3 Harriman wrote to Gross, saying that since the Iranian situation was moving so fast he had no comment to make on it. Harriman did state his view that all the emphasis should be place on getting the British to adopt a negotiating posture toward Mosadeq, and if possible get into the negotiations as soon as possible. (888.2553/10-351) No other replies to Gross' letter have been found in Department of State files.

No. 101

London Embassy files, lot 59 F 59, 523.1 Middle East

The Assistant Secretary of State for European Affairs (Perkins) to the Ambassador in the United Kingdom (Gifford)

SECRET
OFFICIAL INFORMAL

Washington, October 3, 1951.

Dear Walter: Let me give you the history of the past few days here as it affects the suggestion that I go to London.

We have been very concerned that the British attitude on the fundamentals of the relationship with Iran made any reasonable resolution of the problem impossible. It seems to us that there are three basic things which have to be done. These were set forth in our wire, 1740,[1] to you. The most difficult of these for the British of course, is the one about the AIOC. If they would agree that AIOC must be removed from the picture in Iran, the other two did not seem to us to present insuperable obstacles and probably could be worked out. Averell feels particularly strongly about the AIOC problem, and is convinced that no progress can be made until the AIOC problem is properly taken care of. We, of course, recognize the difficulties for the British in this matter. We feel, however, that they must face the realities and move in this direction because if they do not, the alternatives are pretty bad.

On top of this came the decision of the UK to bring the Iranian matter before the Security Council. We were very disturbed about this for three reasons. First, that we doubted the wisdom of bringing up the matter in the Security Council as it would require the Iranians to air their side of the controversy which would publicly harden further their attitude towards the UK. Secondly, because the Resolution which the British suggested was directed wholly to the Iranian Government. On this latter point, I don't think there is a case on record where any action by the UN directed to the internal policies of a country has done anything but stiffen the country's position. Spain is the prize example[2] and, of course, there are others. Thirdly, is of course the opening which it gave to the Soviets for propaganda and perhaps for getting the Iranians into their orbit.

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[1] Document 96.

Oliver Franks explained the domestic political motivation for this action and we think we understand that. But it does seem to us that their action, particularly making public their draft Resolution, was unwise from the point of view of accomplishing the basic objective of a satisfactory settlement.

Another of our difficulties was of course the fact that although they kept stating that they were not currently proposing to use force to maintain their personnel in Abadan, they always reserved the right to do so. There was never any clear indication that they would not do so until they informed us of the withdrawal order on Monday.[3]

It was in the face of these circumstances that Paul Nitze and the Secretary talked last Sunday. They felt that it was important to see if we couldn't reach agreement with the UK on the basic premises. They felt that it was perhaps desirable that someone go to London to afford another opportunity to explain to the British what we here in Washington felt, and why. They concluded that if anyone was to go I was the logical candidate. We spent a considerable amount of time Monday and Tuesday morning discussing the suggestion. The net result was that Averell, Jim Webb and George McGhee all agreed that it was desirable for me to get over as quickly as possible. It was recognized, however, that the situation might be as you described it over the telephone this morning and that was the reason for the wire.[4] While we were delighted to hear that you felt progress was being made on the basic issues, the absence of the Ministers from London at this time is very disturbing. We are convinced that something will have to be done in the very next few days if the situation is not to deteriorate irreparably. I think that if the British can agree on something soon, we can get together on tactics as to how to bring about a settlement, which still seems to us to be possible.

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[2] For documentation on the Spanish case at the United Nations, see *Foreign Relations*, 1946, vol. v, pp. 1023 ff.

[3] Oct. 1.

[4] In telegram 1778 to London, Oct. 2, Perkins told Gifford that it was the general feeling in the Department of State that it might be useful for him to make a quick trip to London to explain the U.S. position on Iran. (888.2553/10–251) The telephone conversation referred to in this sentence has not been identified further, but since telegram 1778 asked Gifford for a phone call or message before 9:30 a. m., it is probable that the Ambassador called the Department and that his call is the one under reference.

To return to the Security Council problem, we here were all reluctant to take issue with the British on their Resolution, but we felt that the effects, should it be adopted, on the possibilities of a settlement were so great that we could not accept it as proposed. It seemed to us that it was bound to harden the attitude in Iran, and, in fact, the publication of it there, as you know, did enable Mossadeq to secure a quorum of the Majlis which he had been unable to do for some time. All of this made us feel coming on top of the very abrupt rejection of the latest Iranian proposals, that the British were courting disaster and were making it practically impossible for a situation to develop in which the Iranians would or could enter into any arrangement that would be in any way satisfactory to the British point of view and to our interest in international business arrangements.

We have a breather of perhaps a week while the proposal is dormant in the Security Council. This is the period in which we should make every effort to see that the proceedings in the Security Council are turned to constructive purposes. This is not going to be easy to do. What seems to be necessary is some advance in negotiations between the UK and Iran which could perhaps be reported to the Security Council. This might make it possible to further postpone Security Council action to give time for the negotiations to proceed. With the situation that exists in the UK this presents a hard problem, but it seems to us to be essential.

Now a word about my own feelings in the matter. I think I have been the least enthusiastic about my proposed visit of anyone here. It was hard for me to separate out how much of that was due to the fact that I don't like flying the Atlantic and how much was due to the fact that I don't think I could add much to what you were doing in London. But these feelings of mine were overcome by the thought that perhaps a fresh face in the picture gave another opportunity for a review of the situation which might be helpful. Oliver Franks seemed to feel too that, by some miracle, I could help in reconciling the different premises as to the real situation in Iran from which we have both been proceeding. . . .

I am, of course, ready to come to London at any time if it would in any way be helpful, so don't hesitate to let me know. I will keep my bag figuratively packed, at least.[5]

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[5] There is no record in Department of State files to indicate that Perkins went to London for the purpose outlined in this letter.

Our real worry, of course, is that with the situation in the Security Council and the situation in Iran, lack of constructive action by the UK at this time may be fatal.

One last word of explanation. The reason we didn't communicate with you sooner is that we had not really cleared our minds here about my going until we sent the wire to you yesterday afternoon.

My best as ever.

Sincerely yours,

GEORGE

No. 102

888.2553/10-351: Telegram

The United States Representative at the United Nations (Austin) to the Department of State

SECRET PRIORITY NEW YORK, October 3, 1951—8:15 p. m.

405. Re Iran. Jebb, accompanied by Coulson, Middleton and Campbell, called on Gross, accompanied by Ross and Rountree this afternoon for discussion of SC res on Iranian case.

Gross initiated conversation by indicating we fully understood Dept had committed itself, but with great reluctance and against its better judgment, to support a clause calling upon Govt of Iran to suspend expulsion order pending outcome of negotiations. Speaking not for Dept but for US reps to SC, Gross indicated we felt a res containing this clause would be a grievously mistaken course. It went without saying that we would fully honor our commitment if we could not persuade UK through Jebb to again reconsider its position on this point.

Jebb inquired why we regarded this clause to be dangerous and misguided, whether we were concerned that a res with such a clause included would not get the necessary number of votes.

Gross replied that it was not question of validity of a particular SC judgment but whether an SC judgment adverse to one party should be made at this stage. He felt that such clause would solidify Iranian Govt, strengthen Mosadeq's position and if not definitely preclude then certainly interfere with resumption of negotiations. There were two theories by which this matter might be approached: First, theory that our objective is resumption of negotiations. We felt resumption of negotiations was in British interest as well as ours. Other theory was the "brick wall" theory which virtually assured that there would be no resumption of negotiations.

This theory was reflected in clause under discussion and this clause has the acid that would make whole res corrosive.

Jebb asked our estimate as to whether res with this clause included would get seven votes. He read to us from a telegram reporting formal reaction of Turkish Govt. This indicated that Turkish rep would be instructed to collaborate with and support his UK colleague. The suggestion was made that it was impractical to request compliance with the court order. This was not intended to imply any reservation but was to be taken merely as a suggestion. The Turkish Govt indicated it was in favor of suspension of expulsion order. Jebb added that his govt was in a very tough mood and thought they might wish to press ahead with a tough res even if seven favorable votes were not in sight.

Gross indicated that we had informed Rau, Lacoste and Luns of our earlier views; that we had informed Lacoste and we would inform Rau and Luns that we had now committed ourselves to support inclusion of clause along lines indicated above. He stressed that we would honor our commitment and vote for such a clause. If, however, British should find they do not have seven votes in sight, he urged that they be flexible and reconsider their position.

Indicating that the optimum as we saw it in terms of achieving resumption of negotiations would be a res accepted by both parties, Gross said that we felt a clause calling upon Iran to comply with court order would guarantee rejection of res by Iran and prevent resumption of negotiations.

Coulson questioned whether our para did not imply Iranian Govt would have the right to maintain expulsion order if negotiations should fail.

Gross pointed out that our formulation was an effort to come as close as possible to language of original UK draft and at same time make it possible for Mosadeq to accept resumption of negotiations. Gross then raised question of what practical effect UK sought in a clause calling upon Iran to suspend expulsion order in light of fact that personnel had already been withdrawn. In other words, was the question one of practical significance or was it a matter of maintaining a moral and political position.

Response by Middleton indicated that British did not envisage much practical result if a certain number of British personnel were permitted to return to Abadan unless agreement were reached on the more fundamental factors. He felt the return of personnel would substantiate the legal position for the company (its claim of ownership) and would permit a minimum maintenance of facilities.

Gross said that he was not questioning the moral and political effect which might result from return of personnel, but the continuity of residence of personnel having been broken he wondered whether it might not be possible to find language which would achieve the moral and political effect desired without making compliance by Iran impossible. He wondered whether language for this purpose might not be included in the preamble rather than in operative part of res.

Gross then gave to Jebb copy of draft res we had prepared in line with Dept's instruction and commitment to British (alternative A in next following tel, USUN's 406, Oct 3[1]) indicating that we were, of course, fully prepared to support a call upon Iran to suspend expulsion order pending outcome of negotiations. Gross explained that we had drafted para 3 of our draft to take account (a) of language in operative para 1 of British draft, and (b) fact that personnel will have been withdrawn by British.

Jebb, noting that our draft had a weaker (Gross suggested neutral) preamble, that it called upon both parties to negotiate and refrain from action which might aggravate the situation, stressed that our draft apparently omitted any reference to compliance by Govt of Iran with ICJ order. He asked if we attached more importance to omission of a clause calling upon Iran to comply with a court order than we did to clause relating to expulsion order. In his mind it was hard to distinguish between two. Saying he had emphasized in SC statement[2] importance of adhering to rule of law, Jebb thought that we might just as well be hung for a sheep as well as a lamb and wondered whether, if we were to call upon the Govt of Iran to suspend the expulsion order, we might not also call upon them to comply with the court order.

Jebb observed he did not feel his govt attached much importance to continued residence of the personnel but that it attached primary importance to compliance with the court order. The question of continued residence was tied up with the court order. Middleton observed that to call upon Iran to suspend the expulsion order without calling upon them to comply with the court order amounted to all tail and no dog and Jebb agreed. At later point in discussion Jebb indicated that whether or not AIOC personnel went back to Abadan was not of much significance; the important thing was to decide whether we were going to call upon Iran or not to comply with the court order. Jebb then wondered whether it would not be possible to call upon the Govt of Iran to act in accordance with the spirit (or principles) laid down by the court and to establish a

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[1] *Infra.*

[2] Presumably a reference to Jebb's speech on Oct. 1 to the Security Council; for extracts, see *Documents* (R.I.I.A.) for 1951, pp. 531–539. For the full text of the speech, see *Security Council, Sixth Year, 559th Meeting, 1 October 1951*, pp. 11 ff.

modus vivendi based upon these principles which would permit the flow of oil pending resumption of definitive negotiations.

Rountree, in course of discussion of this approach, indicated that he felt it would be difficult to differentiate between negotiations for *modus vivendi* and for more permanent arrangement and that the injection of the concept of *modus vivendi* based upon principles of the court would weaken prospects of successful outcome of definitive negotiations.

Further discussion of the relative importance of the court order and the expulsion order led to development of an alternative draft (transmitted as alternative B in next following tel, USUN's 406). The heart of res is of course operative para 1 which in our view gives the UK point of view weight of principle of ICJ findings without actually nailing the Iranians to them. Iran might be induced to accept such a res, thus making it virtually impossible for Soviet to veto. Para three of preamble is based on UKDel suggestion and marches toward their "rule of law" argument.

Jebb said that he would send both alternatives to London with request for urgent instructions. For reasons set forth above, Gross, when offering alternative B, said that if agreement could be reached with UK on basis of this draft, he would recommend that we give UK full diplomatic support. He made clear, however, that he was not in position to commit Dept to such support. Austin thinks alternative B excellent, holding promise for the future.

It was our impression that Jebb favored alternative B.

In course of discussion we clarified apparent misunderstanding; Franks was under impression that Dept had given commitment to support all of operative para 1 of original UK draft, with drafting changes to be worked out.

It was made clear throughout Gross and Jebb were negotiating *ad referendum* and that US as always would honor commitment.

AUSTIN

No. 103

888.2553/10-351: Telegram

The United States Representative at the United Nations (Austin) to the Department of State

SECRET PRIORITY NEW YORK, October 3, 1951—7:04 p. m.

406. Re Iranian case. Fol are texts of alternative draft resolutions referred to in immediately preceding tel:[1]

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[1] Telegram 405, *supra*.

ALTERNATIVE A

The Security Council,

Concerned at the dangers inherent in the situation regarding oil installations in Iran and at the threat to international peace and security that may thereby be involved;

Taking note of the action taken by the International Court of Justice on July 5, 1951, under Article 41, paragraph 3, of its statute,

Calls upon the Governments of the United Kingdom and Iran

1. *To resume* negotiations at the earliest practicable moment in order to make further efforts to resolve their differences in accordance with the purposes and principles of the Charter of the United Nations, and
2. *To refrain* from all action of any kind which might have the effect of further aggravating the situation or prejudicing the rights, claims or position of the parties concerned, and

Desirous of encouraging the maintenance of conditions favoring the successful conclusion of such negotiations,

Calls upon the Government of Iran

3. *To permit* the residence of [*at*] Abadan of the staff affected by the recent expulsion orders or the equivalent of such staff pending the outcome of negotiations.

Calls upon the Governments of the United Kingdom and Iran

4. *To inform* the Security Council of the steps taken by them to carry out the present resolution.

[ALTERNATIVE B]

The Security Council,

Concerned at the dangers inherent in the situation regarding oil installations in Iran and at the threat to international peace and security that may thereby be involved;

Taking note of the action taken by the International Court of Justice on July 5, 1951, under Art 41, para 3, of its statute,

Conscious of the importance, in the interests of maintaining international peace and security, of upholding the authority of the ICJ,

Calls upon the Govts of the UK and Iran

1. *To resume* negotiations at the earliest practicable moment in order to make further efforts to resolve their differences in accordance with the principles of the provisional measures indicated by the ICJ or alternatively such mutually agreed arrangements as may be consistent with the purposes and principles of the UN Charter,
2. *To refrain* from all action of any kind which might have the effect of further aggravating the situation or prejudicing the rights, claims or position of the parties concerned, and

3. *To inform* the SC of the steps taken by them to carry out the present res.[2]

AUSTIN

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[2] On Oct. 4, the Department of State cabled New York and told the Mission that it much preferred resolution B to resolution A. (Telegram 175; 888.2553/10-351) On the following day Gross reported that Jebb had received instructions stating that resolution B was greatly superior to resolution A. Jebb and Gross then discussed further possible resolutions and transmitted two new possibilities. (Telegrams 428 and 429, Oct. 5, from New York; 888.2553/10-551)

No. 104

888.2553/10-451: Telegram

The Ambassador in the United Kingdom (Gifford) to the Department of State[1]

TOP SECRET **NIACT** LONDON, October 4, 1951—1 p. m.

1633. Referring to mytel 1632[2] earlier this morning, I should like to express my concern about . . . Secretary's message to Morrison.[3]

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[1] Repeated to the U.S. Mission at the United Nations and to Tehran.

[2] Telegram 1632 reported that Gifford was withholding the delivery of a message from Secretary Acheson to Morrison (text in footnote 3, below) until the Department of State had received his views. (888.2553/10-451)

[3] Transmitted in telegram 1812 to London, Oct. 3, this message reads:

"First of all I want to assure you that I and my colleagues are fully aware of the great difficulties which you face on the Iranian problem. It is our earnest desire that a solution be found.

"I want you to know, too, that we admire your courage in taking the decision to authorize the withdrawal of the personnel from Abadan which we are sure was not easy for you.

"Our representatives at the United Nations are, I think, working out the difficult problem involved in finding the form of resolution which could be adopted by the Security Council. I hope that we can all settle on a resolution which will meet your basic requirements, be acceptable to the majority of the Council and avoid in itself an irrevocable freezing of the Iranian situation.

"The Security Council's consideration of the problem is, of course, of great importance but I believe that of paramount importance is a fair and satisfactory settlement between your country and Iran. I hope that you and your colleagues are giving careful consideration to the ideas contained in the message conveyed to you on September 29. [See Document 96.]

"It also seems to me that some prompt move leading to a resumption of negotiations which might forestall debate in the SC is vital. I fear if Mosadeq in debate presents his case in the way to be expected, the Iranian position may become so firm as to make any solution impossible in time to save the situation.

Continued

. . . I have taken liberty of recasting message . . . and would appreciate Dept's advising me urgently by phone or cable whether my suggestions are acceptable, in which event, I shall deliver message promptly, in person if possible:

> "I wish to thank you for your message of Sept 30 which was delivered to the Dept by Amb Franks.[4] First of all I want to assure you that we are fully aware of the great difficulties which you face in your efforts to find a solution to the Iranian problem and I wish to reiterate our sincere desire to be helpful in this connection.
>
> Our representatives at the UN are, I think, working out the difficult problems involved in finding the form of resolution which could be adopted by the SC. I hope that we can all settle on a resolution which will meet your basic requirements, be acceptable to the majority of the Council and avoid in itself an irrevocable freezing of the Iranian attitude.
>
> The SC's consideration of the problem is, of course, of great importance but I believe that of paramount importance is a fair and satisfactory settlement between your country and Iran. I fear if Mossadeq in debate presents his case in the way to be expected, the Iranian position may become so firm as to make any solution impossible in time to save the situation. It therefore seems to me that some prompt move leading to a resumption of negotiations which might forestall debate in the SC is vital. I do not have any firm ideas at the present time as to how such a resumption might be brought about except for those contained in the message conveyed to you by Amb Gifford on Sept 29 but it occurs to me that your colleagues may have some suggestions to make. If this is the case, we should be most happy to help in any way we can.
>
> In conclusion, I wish to repeat my very great concern over this problem and my hope that an early and satisfactory solution can be found."[5]

GIFFORD

"In conclusion, I wish to repeat my very great concern over this problem and my hope that an early and mutually satisfactory solution can be found." (888.2553/10-351)

On the same day the Department transmitted to Gifford the text of a message under consideration for President Truman to send to Prime Minister Attlee. It reviewed the seriousness of the situation as seen from Washington, stated that the submission of the case to the Security Council had consolidated Mosadeq's position at home, and indicated that the President would give full and immediate consideration to any proposal for decisive action that would reverse the trend of the situation. (Telegram 1816; 888.2553/10-351) Gifford replied on Oct. 4 that this draft message would be held in abeyance until he had talked with Morrison. (Telegram 1634; 888.2553/10-451)

[4] See footnote 2, Document 99.

[5] This telegram was received in the Department of State at 9:47 a. m., Oct. 4, and at 1:07 p. m. the Department transmitted the revised text to London with approval for delivery to Morrison. (Telegram 1819; 888.2553/10-451)

No. 105

888.2553/10-551: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET NIACT TEHRAN, October 5, 1951—5 p. m.

1295. 1. I have just returned from discouraging two-hour conv with Mosadeq. My visit was at his request. In early part of our conv he was outspokenly critical of US for support Brit position against Iran by voting to place oil dispute on agenda SC.[2] He did not seem much impressed by my arguments that US by so voting had not taken sides, but had merely taken position both parties shld have opportunity explain their respective points of view.

2. Essence what Mosadeq had to say to me was as fols:

(a) It was his intention when he appeared before SC to state nationalization of Iran oil industry internal affair Iran and not one for consideration by SC; Iran prepared to compensate AIOC for amount damages minus Iranian counterclaims; Iran willing pay cash so far as possible from its various foreign currency assets for damages and if insufficient cash available to pay balance when able to do so; Iran, however, wld not permit any foreigners to operate Iranian oil industry in order to produce profits to pay compensation.

(b) Iran wld never again permit any foreign company or any foreigners to operate or work in Iran oil industry on profit basis; Iran had learned its lesson that when foreigners work on profit basis there is irresistible temptation for them to interfere in internal affairs for purpose making sure their profits wld continue or to obtain larger profits.

(c) Further Iran wld not permit any Brit org to operate Iranian oil industry or to work in Iran in connection with oil on a payment-for-service basis. Iran of opinion that in view all that had passed it wld be extremely difficult for Brits, even though employed with fixed remuneration, to keep out of Iran politics. Brits wld be sure endeavor prevent Iran Govt from exercising its auth over Brit org employees.

(d) Iran Govt preferred that foreign technicians, Brit or otherwise, who might be employed in Iran oil industry work for Iran company under individual contracts. It might, however, in certain circumstances and for certain purposes, consider employment on basis contract of org not of Brit nationality nor under control Brit nationals.

3. Mosadeq spoke with so much determination that I now have little hope left that it will be possible for an arrangement to be ef-

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[1] Repeated to London and the U.S. Mission at the United Nations.

[2] On Oct. 1 the Security Council voted 9-2 (Yugoslavia and the Soviet Union opposing) to take up the Iranian question as requested by the British, and decided to postpone its discussion until Oct. 11.

fected between him and Brits which wld permit Brit company to operate again in Iranian oil industry. Stutesman, who was with me during conv and who had sat in during various previous convs between Mosadeq and Grady, tells me that it seemed to him Mosadeq was more frank in disclosing his uncompromising attitude than hitherto. In light this intransigent attitude, I believe Shah's remarks to me yesterday (Embtel 1283 Oct 4[3]) shld be discounted; I fear Shah as well as Ala have indulged in wishful thinking.

4. I shall not burden Dept this tel with account my efforts persuade Mosadeq of advantages to Iran and to world peace of his taking position which wld render it possible for agreement to be reached with Brit. I stressed internal and external pol and econ factors; I endeavored point out dangers involved and security to be gained. I regret what I said seemed have little effect on him. He merely tried to impress upon me up to the end our conv that if the US shld continue appear to support UK position while Russians supported that of Iran, Russian popularity and influence wld increase at expense of West. He said, "I know mentality of my people, and whether we like it or not, Russian popularity is rising in Iran".

5. At one point Mosadeq referred to rivalry between US and Russia in Iran. I interrupted to tell him US did not consider itself rival of Russia in Iran and indicated that if there were any rivalry it was between govt and people of Iran and those of Russia as to who wld hold sovereignty over Iran and that US was merely trying to give support to govt and people of Iran in this contest. His answer was that Iran wld just as soon lose its independence to the Russians as to the Brit. He said that during one of his convs with Harriman, the latter had stressed that acceptance of Stokes proposal wld make it possible for Iran to receive large income from its oil. His answer to that has been that Iranian liberty was not for sale.

6. He said he wld appreciate it if I wld present his views as precisely as possible to my govt. This I promised to do.

HENDERSON

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[3] In telegram 1283 Henderson reported that he had lunch with the Shah who, *inter alia*, stated that he was convinced Mosadeq was not only willing to resume negotiations with the British but also to come to some understanding with them. (888.2553/10-451)

No. 106

888.2553/10-551: Telegram

The Ambassador in the United Kingdom (Gifford) to the Department of State[1]

TOP SECRET NIACT LONDON, October 5, 1951—8 p. m.

1698. I had 45 minutes with Morrison this p. m. (Embtel 1674[2]) and found him in a petulant and angry mood. Before looking at Secy's msg,[3] he launched into tirade about our attitude re Iranian problem. He was unhappy about convs in NY re SC res, reiterating number of times "I will not be put in the dock with Mosadeq". He went on to say that he felt that UK had been comparatively blameless in dispute, whereas Mosadeq had failed to live up to ICJ recommendations and has generally refused to cooperate in any way in reaching equitable solution. He said at one point "We have been the saints and Mosadeq has been the naughty boy."

He emphasized he cld not understand US attitude. He expected 100 percent cooperation and was only getting 20 percent. Since he had been in ofc he had done his best to accommodate us on a number of subjs and thought that he had been on whole successful. He mentioned specifically Jap Peace Treaty.[4] On Iran, however, we had persistently inveighed against use of force and then when UK reverted to appeal to SC to uphold rule of law, we not only had doubts re wisdom of action, but came up with res which failed to make any distinction between relative guilt and innocence of parties. He was afraid there might be public reaction against US during course polit campaign for our actions. He had felt constrained in his statement at Scarborough to make ref to fact that US had inveighed against use of force. He did not know whether it wld be necessary to make public other aspects of our attitude on Iran question. He expressed intense concern at continued US pressure in this matter and said he hoped US Govt was not by its actions trying to bring about defeat of Labor Govt.

I immed interrupted to assure him this was certainly not case and that on contrary we were most anxious to be helpful in bringing about settlement of this serious problem. We still wished to be helpful and were anxious to find out way in which Brit minds were running as to where we went from here.

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[1] Repeated to Tehran and the U.S. Mission at the United Nations.

[2] In telegram 1674 Gifford reported that he had an appointment at 4 p. m. to see Morrison. (888.2553/10-551)

[3] Transmitted in Document 104.

[4] For documentation on the Conference at San Francisco for the signing of the Japanese Peace Treaty, Sept. 4-8, see *Foreign Relations*, 1951, vol. VI, Part 1, pp. 777 ff.

Morrison replied by indicating that he felt future developments shld take place within framework appeal to SC. In this connection, he felt original Brit draft res[5] was outmoded by evacuation, but he didn't like our orig res[6] either. I interrupted to say that it was my understanding things were better on this score and that we were much closer together. Morrison replied that later version which had been discussed by our two dels in NY was better, but still not good enough. It must be strengthened with respect to Iran failure to act in accord with ICJ's interim measures. He kept emphasizing that it was most important to uphold moral auth of court and to ensure rule of law wld prevail. He then introduced his second major objection to draft, i.e., calling on two parties to negot. He felt it wld be necessary for SC to appoint someone to bring two parties together in view extreme difficulty encountered in past in holding Mosadeq to his word. With regard any long-range settlement, he thought it might be useful contemplate replacing AIOC with some other oil company setup in which other countries and Iran wld participate. He did not elaborate further as to what he had in mind on this point but said he was giving consideration to it.

I told Morrison that info had come to us from high source in Iran which I was not at liberty to divulge that Mosadeq is understood to be willing not only resume negots but also come to understanding when he gets to NY. (Deptel 1840 Oct. 4.[7]) We thought this provided good opportunity to make further attempt to bring about settlement and provide opportunity for secret negots in less tense atmosphere than Tehran. It seemed to us that Brit wld be well advised to look into this possibility carefully. Morrison replied that he was somewhat worried about confusion arising from such negots taking place at same time matter before SC. If members got word negots were taking place, they might be less inclined to act forthrightly. Nevertheless he was willing to consider possibility such negots if evidence were forthcoming that Mosadeq was willing to enter into

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[5] See Document 92.

[6] Transmitted in telegram 162 to the Mission at the United Nations, Sept. 29. (888.2553/9-2951)

[7] In telegram 1840 the Department told Gifford that it was increasingly concerned at the hazards of debate on the Iranian resolution in the Security Council, because Mosadeq was coming to New York prepared to undertake a complete exposure of AIOC operations in Iran. Gifford was told to make full use of the substance of Henderson's report (footnote 3, *supra*) that Mosadeq was prepared to resume the negotiations. (888.2553/10-451) On Oct. 6, having received Henderson's second cable (telegram 1295, *supra*), Gifford instructed Holmes to inform the Foreign Office of Mosadeq's intransigent attitude so Morrison would not be under any false impressions. (Telegram 1702 from London, Oct. 6; 888.2553/10-651)

"genuine and sincere" negots. I replied I felt that Brit cld determine this for themselves in NY when Mosadeq arrived there and again reiterated point that it cld be done quietly and without publicity. As for possible conflict between negots and SC action, I suggested perhaps latter cld be postponed for short time. Morrison replied to this by saying that he was in no hurry. He went on to say he did not feel that he cld send Cab Min, however. They were all preoccupied with election here and, moreover, it wld draw too much attention to negots. I said I did not personally feel it was absolutely necessary to send a Cab Min. Morrison then observed that there were UK officials in NY competent to deal with matter. He emphasized his greatest fear was that of a possible third failure. He did not want to be made a fool of by Mosadeq, by "queering the pitch in the SC" or by "being left in the lurch by the US". He wld have to be convinced Mosadeq was sincere.

During all the foregoing conv, Morrison had kept Secy's msg folded in front of him. He finally picked it up and read it, shaking his head and muttering "This is defeatist—defeatist". I said I did not regard msg as at all defeatist. I then pointed out our concern about Russia and said this was uppermost in our minds. He said he wasn't so concerned altho he agreed with my remark that there were responsible people who felt they were justly concerned.

Morrison reverted to difficulty in dealing with Mosadeq and recalled that even Harriman had said that he had reached conclusion you can't do business with Mosadeq. I admitted past experience had certainly shown extreme difficulty of doing business with Mosadeq, but said that I felt that fresh new element now was indication he might be prepared to reach a settlement. I reiterated that certainly nothing wld be lost and possibly much gained by making every effort to ascertain in NY the sincerity with which Mosadeq intended approach problem. Morrison reverted to his domestic polit fears and said he had to be most careful and cld not afford to make a fool of himself now.

At end of conv, Morrison took much more conciliatory tack and emphasized he didn't want us to think he was ungrateful for our help. He spoke particularly highly of Harriman and of Harriman's efforts and said that he had never had any regrets that negots had been entered into at that time.

He promised to give serious consideration to idea of trying to resume negots with Mosadeq in NY and said that he might request our help.

I am afraid that there are the possible makings of a real Anglo-Amer rift in this Iranian matter if we are not careful. In view of all the above, I feel proposed msg from Pres to Attlee[8] wld be the opposite of helpful and recommend that no msg be sent at this time.

GIFFORD

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[8] See footnote 3, Document 104.

No. 107

888.2553/10–851

Memorandum of Conversation, by the Director of the Office of British Commonwealth and Northern European Affairs (Raynor)

TOP SECRET [WASHINGTON,] October 8, 1951.

Subject: Iran

Participants: Ambassador Franks, British Embassy
Mr. Burrows, British Embassy
Assistant Secretary Perkins, EUR
Assistant Secretary Hickerson, UNA
Mr. Wainhouse, UNP
Mr. Nitze, S/P
Mr. Rountree, GTI
Mr. H. Raynor, Director, BNA

Ambassador Franks called at 6:30 p. m. Sunday[1] evening pursuant to a request he had made on Saturday. He said in his view our problem now broke down into two parts:

(a) the smaller area of difference relating to the SC resolution

(b) a wider difference of approach which reflected itself in the former area of difference.

As to the smaller area relating to the resolution, he said as he understood it, the two major points of difference were that the U.K. wanted something in the resolution pointing a finger at Iran for noncompliance with the indications of the court and that the U.S. wanted to place in the resolution a reference to alternative bases for solution. He later brought up a third point of difference which is the problem as to whether to include the appointment of a Mr. "X" to bring the parties together.[2]

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[1] Oct. 7.

[2] On Oct. 6, in a conversation with Holmes, Makins stated that the United States and the United Kingdom should expend their energies on a resolution which would "uphold rule of law and provide for appointment of representative to act as catalyst in bringing parties together." (Telegram 1702 from London; 888.2553/10–651)

As to the wider area of difference he said our philosophy appeared to be to have an innocuous resolution on the theory that the Persians should not be upset in any way which in turn appeared to result from apprehension on our part as to the Russians.

He then stated that the U.K. looked at the SC action as the alternative to the use of force. He said a decision had been made not to use force. This was primarily a U.K. decision but the U.S. had had a certain part in it. He then said that having decided not to use force, in their eyes the alternative was to appeal to rule of law; if you do not appeal to force you appeal to justice. He said it was a mistake to underestimate the strength of the U.K. feeling on this matter and he stressed that this was not a party feeling. It ran deeply in public opinion and in both parties. He said the impression had been created in London that the more the U.K. gives the more she will be requested by us to give. He said they had a further feeling that while we had felt the U.K. to be myopic with respect to the AIOC that we were now in a similar position with respect to over-playing the dangers, especially the Russian one. He said another feeling was that in our preoccupation to avoid a hardening of Mosadeq's position we ignored the possibility that we might be creating a situation which would make it impossible for the British to negotiate.

At one point in the conversation Ambassador Franks admitted that the bringing of the case to the Security Council and probably for a period thereafter will result in a temporary strengthening of Mosadeq. He said, however, that as it becomes apparent that he did not "bring home the bacon" from New York and the economic pinch begins to be felt that the British thought he would then begin to lose out. Mr. Nitze indicated that we felt there was not time for this process; that the intervening period would be too dangerous from a point of view of developments favoring the Tudeh Party or even the Russians directly. Ambassador Franks agreed that the Russian angle was important but stressed he felt we overemphasized it. It was apparent that there was a difference of evaluation between us on this point.

Mr. Hickerson stressed that our objectives were to help the British as much as possible and that specifically in New York we wanted to go as far as possible to meet their position without going so far as to freeze the Iranian position irrevocably. Mr. Perkins expressed the view that we were acutely conscious of the political difficulties in the U.K. but that we were somewhat concerned that pre-occupation of the Ministers in London with the political campaign was resulting in insufficient high-level consideration being given to the very serious implications of this whole problem.

During the conversation Ambassador Franks attempted to feel us out as to whether there was a trading area open with respect to the resolution. In this connection he expressed the view that the appointment of a Mr. "X" was quite important to the British. More by implication than by what the Ambassador said, we obtained the impression Ambassador Franks felt that if we could include in the resolution a pointing of the finger at Iran for non-compliance that his Government might be in a position to accept our reference to a solution on some alternate mutually agreed basis. In this connection Ambassador Franks said he thought agreement would be facilitated if we could keep the new draft as close as possible to what he referred to as the U.K. Resolution D which apparently is the resolution described as possibility 2 in New York's telegram 429 of October 5.[3]

Ambassador Franks was assured that we would give the most careful consideration to all he said. We told him we were now working on a draft of a new resolution which we hoped to make available to Gross in the morning for further conversations with Jebb. Ambassador Franks agreed that detailed negotiations of a resolution should be handled in New York. We promised to give him a copy of the new draft when it was available.

Throughout the conversation, Ambassador Franks assumed an exceedingly serious posture, giving every indication of real concern about the situation. He repeatedly referred to the dangers he saw in it with respect to Anglo-U.S. relations at one point stating that he felt Anglo-U.S. relations had reached a dangerous posture.

G. H. R.

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[3] As transmitted in telegram 429, "possibility 2" reads as follows:

"*The SC*",

"*Concerned* at the dangers inherent in the situation regarding oil installations in Persia and at the threat to international peace and security that may be involved;

"*Taking* note of the action taken by the ICJ on July 5th 1951 under Art 41 para 3 of the statute;

"*Conscious* of the importance in the interests of maintaining international peace and security of upholding the authority of the ICJ;

"*Noting* that the provisional measures indicated by the ICJ on July 5th 1951 have not been complied with;

"I. *Appoints* Mr. (blank) to use his good offices in order to promote negotiations between the parties in accordance with the principles of the provisional measures indicated by the ICJ, with a view to a solution of the dispute.

"II. *Calls* on all members of the UN to refrain from action of any kind which might have the effect of further aggravating the situation or prejudicing the rights, claims, or position of the parties concerned." (888.2553/10-551)

No. 108

888.2553/10–851: Telegram

The United States Representative at the United Nations (Austin) to the Department of State

SECRET **PRIORITY** NEW YORK, October 8, 1951—8:37 p. m.

438. From McGhee. Dept please relay London and Tehran. Re Iranian case. Gross, Walters and I saw Dr. Mosadeq for over an hour.[1] Meeting was arranged through Entezam who indicated that PriMin appeared eager to talk and that he was in mood for negotiations and desired a delay in SC action. Entezam himself, although he introduced group, did not remain for discussions, presumably because he felt it would inhibit PriMin. Mosadeq was in a good mood and apparently not affected by his long trip. After exchange of pleasantries I welcomed him on behalf of Pres and Secy and asked when he would prefer come to Washington pointing out that we assumed it would be more convenient after SC had taken action.[2] This question gave rise to statement on his part that he would in fact prefer to avoid SC action through prior negotiations. His basic reasoning on this point was that the statement that he felt he must make in SC would in fact preclude the possibility of successful negotiations thereafter. He preferred postpone SC action with informal recommendation that parties seek agreement directly between themselves.

After he had suggested different periods of delay in resumption SC debate we understood him finally to suggest a delay until Sun or Mon.[3] If no agreement were forthcoming, SC could then take action, and he would at that time present "vigorous and sharp" defense. In the ensuing discussion, both Gross and I, without indicating there was any possibility of withdrawing case from SC or postponing action, tried to convince Mosadeq that it would be possible for him to make a strong statement in defense of the Iranian position and still keep the door open for acceptance of an impartial SC res of a constructive nature.

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[1] Mosadeq arrived in New York on Oct. 8 accompanied by his son and daughter; Alayar Saleh, the President of the Joint Oil Committee; and three other members of the committee; Karim Sanjabi, Minister of Education; Javad Busheri, Minister of Roads; the editors of three Iranian newspapers; two translators; Mozafar Baghai; a National Front Deputy; the Iranian Director of Press and Propaganda; the Iranian Ambassador to the Netherlands; and a photographer.

[2] On Oct. 5 Ambassador Henderson asked Mosadeq whether he intended to visit Washington while he was in the United States and strongly recommended to the Department that the Prime Minister be invited. (Telegram 1292 from Tehran; 788.13/10–551) On the same day the Department of State cabled Henderson that he should tender an invitation from President Truman to Mosadeq to visit Washington. (Telegram 735 to Tehran; 788.13/10–551) On Oct. 6 Ambassador Gifford cabled that he thought it would be a serious mistake to invite Mosadeq to Washington, but his advice was disregarded. (Telegram 1704 from London; 788.13/10–651)

[3] Discussion of the Anglo-Iranian oil case at the Security Council was subsequently postponed until Oct. 15.

Mosadeq expressed conviction Brit were hoping to drag out SC proceeding thus playing for time in which economic pressures on Iran would make latter more compliant. We pointed out SC action could be both quick and constructive, but this made little dent upon his fixed view that any chance for conciliation would be precluded by the slashing attack he would have to make if the SC debate resumed. He tentatively explored idea of SC mtg for sole purpose of urging parties to negotiate or of postponing debate in order parties might negotiate. We explained SC mtg not necessary for latter purpose, which could be accomplished by SC Pres informally polling members. He seemed to prefer latter course.

It was pointed out that there were two questions: (a) The question of jurisdiction; (b) the substance of any proposed res.

Gross made clear that substantive debate on res would have to take place before council could consider question of jurisdiction being a formal one, this substantive debate would occur in connection with debate on res. It was pointed out to PriMin that res itself would be of constructive nature looking toward future and particularly toward resumption of negotiations leading to an agreement. It would in all probability not seek to cast blame on either party and would not require defense of type that PriMin apparently envisaged involving whole question of Brit oil concessions in Iran. We pointed out that he was among friends and that the various members of the council including the US would see to it that an impartial res was adopted and one looking toward constructive action and a settlement rather than toward recriminations. He maintained, however, that it was absolutely necessary for him to make a strong defense of the Iranian position vis-à-vis Brit and Brit oil interests. It was inevitable that by the very nature of his presentation the Brit would be "humiliated" and the door would be closed. It was pointed out that the US and indeed other members of the council would expect a vigorous defense of the Iranian position, but that such debate could be objective in nature and could conclude with statement that his govt was always ready to undertake negotiations which would lead to satisfactory solution of problem. The PriMin reiterated that this was impossible. This subject being exhausted for moment, question of PriMin's proposed resumption in negotiations was then discussed. An effort was made to determine whether or not PriMin really had in mind a new basis of negotiations. It was pointed out that at time discussions broke down in Iran positions of Brit and Iranians were far apart and that although we had never desired define precise terms under which agreement be reached, nevertheless Harriman had clearly stated to PriMin that he felt there must be more realistic attitude on part of Iranians if a satisfactory agreement was to be concluded. I asked PriMin, for example, whether or not his position had changed on the point on which negotiations broke down in Tehran, namely, creation of suitable executive with sufficient authority to run oil industry subject to the policy control of the NIOC. I pointed out that from our long experience, we knew that business operation of size required to run Iranian oil industry could not be satisfactorily operated by a board of directors, but that there must be under board a single executive with executive powers over subsidiary depts and technicians. I also pointed out that it was the experience of our oil industry that Iranian operation would need continuous access to modern technology in many fields of specialization required if Iranian petroleum industry was to be kept abreast of competitors. PriMin replied that he was prepared to accept an executive with proper authority and that this had been embodied in his recent proposals to British. He also appeared to understand the problem of access to technology.

The conversations were, however, interrupted at this point by PriMin's attending physician, although Dr. Mosadeq was eager to continue.[4] At Dr. Mosadeq's insistence it was planned that further discussions be held at 11:45 tomorrow.[5]

Austin

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[4] A memorandum of conversation on this meeting is in file 888.2553/10-851.

[5] See the memorandum of conversation, *infra*.

No. 109

888.2553/10-951

Memorandum of Conversation, by Colonel Vernon Walters[1]

SECRET NEW YORK, October 9, 1951.

Participants: Prime Minister Mossadegh, Iran
Assistant Secretary of State George C. McGhee, U.S.
Colonel V. Walters

Mr. McGhee, after the usual exchange of amenities with Dr. Mossadegh, spoke of Dr. Mossadegh's call during lunch in which the Prime Minister had indicated that the question of compensation must be settled first.[2] He inquired whether the Prime Minister meant that a definite settlement should be reached or a formula agreed upon. The Prime Minister said he meant a definite agreement should be reached to settle the question of compensation. Mr. McGhee expressed doubt that this could be done in a short period such as ten days and it would require examination of the company's books and close study. Dr. Mossadegh said that his insistence on this point was caused by the fact that he had made a commitment to Parliament that he would not settle other matters before the question of compensation had been settled. He said that of the three ways he had mentioned this morning, it was perhaps easiest to have the matter settled "by the Presidency of the United States". He could delegate that authority and would abide by its decision. He said that Iran had some counter claims based on nonpayment of royalties and customs duties on goods imported in Iran by the AIOC that were not essential for the operation of the industry.

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[1] The conversation took place at the New York Hospital during the afternoon of Oct. 9.

Mr. McGhee said that the Prime Minister had spoken this morning of the urgency of the situation in Iran.[3] He inquired how long Dr. Mossadegh thought the present situation could go on, if no new factors entered the situation. The Prime Minister replied that he thought about a month, but emphasized again the gravity of the situation in Iran and the underlying threat to Iranian independence. Mr. McGhee said that in view of the problem presented by the forthcoming British elections, he wondered if talks were started prior to the Security Council action, would Dr. Mossadegh be willing to continue talks even though it was obvious that no decision could be reached before the election. Dr. Mossadegh said that he would, if the Security Council would declare its incompetence to discuss Iranian oil nationalization. If it did declare its competence then he would be obliged to make a most vigorous defense of Iran and would then continue the talks if the British were still willing to talk after he had said what he thought about them. He again expressed the belief that they were anxious to drag things out in order to give economic pressure more time to induce the Iranians to be compliant. He said that the Iranian budget, which totaled some one billion tomans, was in deficit by some 300 or 400 million tomans. This was an extremely serious situation and represented a constant threat to Iranian independence and therefore to world peace. Mr. McGhee said he was well aware of this fact.

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[2] No record of this call has been found in Department of State files.

[3] A memorandum of McGhee's morning conversation with Mosadeq is in file 888.2553/10-951.

Dr. Mossadegh then said that many Americans thought the independence of Iran could best be protected by military aid but that when you took the man away from the land to make him a soldier, you diminished agricultural production. Not until Iran had begun to mechanize her agriculture would there be men available in sufficient numbers to defend the country. As things stood now the budget contained no appropriations for productive purposes but only appropriations for the salaries of Government officials and current expenses. Therefore it was important that something be done to assist in increasing agricultural production. Mr. McGhee said that he had appeared recently before three Congressional Committees defending a project which called for a grant of 25 million dollars to Iran for the purpose of assisting the mechanization of agriculture. He could not promise it would be approved but indications were that it would be. Dr. Mossadegh then said that there had been a 25 million dollar loan to Iran pending for a long time and that no one had had the courage to introduce legislation making it possible to accept this until he himself had done so. He said that a bad impression had been caused in Iran by the fact that shortly after the Parliament had approved acceptance of the loan, the Iranian Government had received a note from the United States Embassy asking whether the Iranians had sufficient local currency to make possible the use of this loan. Mr. McGhee explained that the Export-Import Bank was not under the State Department and that the legislation authorizing it to loan money required that the Bank ascertain whether recipients of loans had available local currency in sufficient quantities to permit satisfactory use of the loan and that the sending of this note by the United States Embassy in Tehran had been a mere coincidence in so far as it had occurred immediately after the Parliament had approved acceptance of the loan. Dr. Mossadegh said that he was aware of this, but that it had nevertheless created a bad impression. Mr. McGhee again emphasized that the 25 million dollar grant of which he had spoken was a grant and not a loan and that it should have a double-barrelled effect in that it would give the Iranian sufficient local currency to make it possible for them to qualify for the Export-Import loan. Dr. Mossadegh said he understood this and was very appreciative.

Mr. McGhee then asked Dr. Mossadegh whether he would be willing to give the sales discount of which he had spoken in the morning to the Purchasing Organization not only for the oil for the United Kingdom but also on the oil which the Purchasing Organization might acquire on behalf of other customers. Dr. Mossadegh said that he would be willing to do so.

Mr. McGhee then spoke of the sale discount and asked Dr. Mossadegh whether he would be willing to consider giving an increased discount in lieu of compensation. Dr. Mossadegh said that he would providing the question of duration could be satisfactorily settled.

Mr. McGhee asked whether Dr. Mossadegh recognized the problems presented by the need of a technical director and access to technological advances and inquired whether the two could not be combined. Dr. Mossadegh expressed a preference for handling them separately but did not appear adamant on this point.

Mr. McGhee then spoke of the need for access to technical knowledge of the oil business. He asked whether Dr. Mossadegh had thought this question out at any length. The Prime Minister said that he had not, but wondered if the technical director could not take care of this matter by hiring additional personnel. Mr. McGhee said that he did not think it would be done on an individual basis; that there were two ways in which it was done throughout the world; one was by having subsidiary companies of the very large oil companies, and the other was by a consortium as in Iraq. Dr. Mossadegh said that there was great suspicion in Iran against the idea of an agency which some viewed as a disguised concession. Mr. McGhee explained that the agency would not own anything and would not share in the profits; it would work only on a fee basis. Mr. McGhee felt that this was perhaps the best way to insure access to technical knowledge throughout the world. He cited the case of Mexico which had not insured for itself access to this technical knowledge and had fallen from a position of the world's second largest petroleum exporter to a situation where it was barely self-sufficient in petroleum products. Dr. Mossadegh seemed reassured by the fact that the agency would receive only a fee and did not indicate either outright acceptance or rejection of the idea. It was pointed out to Dr. Mossadegh that the agency could furnish him both a technical director and the technical knowledge required to make Iran's oil industry competitive. Dr. Mossadegh then indicated, in reply to a question, that he would be willing to accept an American or a Dutchman as technical director, stating that the Dutch had excellent specialists in this field.

Mr. McGhee then asked the Foreign [*Prime*] Minister whether he was aware of the fact that foreign technicians working in Iran would have to receive higher salaries than their Iranian opposite numbers. The Prime Minister said he was fully aware of this as the foreign technicians were working far from their homelands and the Iranians were working at home. He was quite prepared to pay higher salaries to the foreign technicians.

Mr. McGhee then returned to the question of the nationality of the technical director. Dr. Mossadegh indicated that Iran had lost confidence in the British and when there was no confidence you could not work out a mutually satisfactory agreement. He said that the British were always acting with the interest of their own pocket in mind, whereas the United States was a disinterested party. He said that he did not want the technical director to be an Englishman but was quite willing to take the individual British technicians. Mr. McGhee pointed out that the recruitment of technicians was an extremely complicated problem. There were not many of them unemployed and it had taken the Anglo-Iranian a long time to build up their staff. He had recently asked an American expert how long it would take to build up a similar staff starting from scratch and he had been told that it would take at least five years. Dr. Mossadegh seemed impressed by this figure.

Mr. McGhee then asked whether Dr. Mossadegh in the light of Iran's difficulties would be willing to sell some of the stored oil products on a basis of receiving part payment in cash, part to be retained by the purchaser until a settlement was reached. Dr. Mossadegh said he did not like this idea. The stored oil represented eight months' supply for Iran's internal consumption. If they were a long time in reaching a settlement with the British and sold this oil they would then be without oil for their own requirements. The British were anxious to create an oil shortage in Iran as a means of putting pressure on the Iranians. He said the British had actually offered to purchase for cash the oil now in storage and he had refused to sell it.

Mr. McGhee said that Dr. Mossadegh had a great opportunity to improve the living standard of the Iranian people by an agreement which he had it in his power to conclude. Dr. Mossadegh said he was aware of this and was therefore anxious to finish this question and achieve a settlement.

Dr. Mossadegh then spoke of U.S. military assistance to Iran. He said that this would not prove a real bulwark to defend Iran unless living conditions were improved. The lower ranks of the Army and school teachers were very discontented due to their low pay. This was a dangerous situation and if an agitator could put himself at their head there would be a revolution in Iran. This was a danger which both the British and the United States must recognize. If it occurred world peace would be seriously endangered. Mr. McGhee then asked if Dr. Mossadegh did not feel that some military aid was necessary. The Prime Minister replied that legitimate defense was the duty of every country and that if Iran could mechanize her agriculture she could then make available the necessary manpower for national defense. Present forces were adequate only for internal security. Assistant Secretary McGhee then asked Dr. Mossadegh to give the West a chance to prove it was a friend of Iran. Dr. Mossadegh said he knew that this was so in the case of the United States but that the AIOC had interfered continuously in Iran's internal affairs to insure the election of deputies subservient to them.

He said that all he had said to Mr. McGhee had been exploratory and should not be communicated to the British as coming from him as a commitment. He said he felt the United States should make its good offices available in achieving a settlement. Mr. McGhee said that the interest of the United States had always been to get negotiations going in order to achieve a settlement. Dr. Mossadegh said that this was also his wish. He repeated his earnest desire to settle this whole question.

Dr. Mossadegh then asked what the situation was with regard to the Security Council. He had asked for a two-day's postponement in order to give him a chance to recover his health before addressing the Security Council. Mr. McGhee said he did not know whether this two-day postponement would be granted but he did not anticipate serious difficulties of this sort. Dr. Mossadegh asked what he should do. Mr. McGhee said that he was going to Washington later in the day and would talk with the Secretary and other high officials of the United States Government. He would then probably return to New York and see Dr. Mossadegh again. In the meantime someone from the U.S. United Nations Delegation would probably call and see Dr. Mossadegh. Dr. Mossadegh thanked Mr. McGhee and said that he had developed great confidence in him during the last two days. He had spoken to Mr. McGhee as he would speak to his own brother, with the utmost frankness and trust. Mr. McGhee thanked Dr. Mossadegh for this expression and assured him that he would protect his confidence. Mr. McGhee then took leave of Dr. Mossadegh.

No. 110

888.2553/10-951: Telegram

The United States Representative at the United Nations (Austin) to the Department of State

SECRET PRIORITY NEW YORK, October 9, 1951—7:53 p. m.

443. Re Iran. Jebb called on Gross this afternoon and agreed on text of res as sent to Dept in immediately following tel.[1] Our acceptance of language in first para of operative part was on basis of the agreed language on principles as set forth in Usun 428 of Octo-

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[1] Telegram 444, from New York, Oct. 9. (888.2553/10-951) The text of the draft resolution is in U.N. document S/2358/Rev.1.

ber 5, page 3.[2] Jebb agreed to this, saying London had not objected to this agreed language, which had been reported to FonOff October 5. He said he would work it into his statement speaking to res.

It was agreed preferable to drop para 3 of operative part in order to leave parties as free as possible from feeling of SC supervision.

Re timing Gross said we would go along with UK decision, but would much prefer meeting not before Monday.[3] This would give UK more time to negotiate 7 votes with other dels and, besides, understood Mosadeq feels justified on score of health in hoping for meeting not before at least Saturday. Gross said Muniz (Brazil) seemed to want longer delay rather than shorter and he reported that Rau (India) while having no instructions except to try to have door kept open for negotiation, seemed also to want delay. After indicating preference for Friday if 7 votes obtained by that time, Jebb finally said he would inform London he proposed to have draft circulated by secretariat Saturday and to ask for meeting Monday. He admitted that if there was wobbling on 7th vote it would be necessary anyway to postpone beyond Friday. When asked what UK Govt would do in event 7 votes not obtained, he replied he had no idea and would have to seek instructions if this came to pass.

Regarding cosponsorship, he said he assumed UK would present res alone. He was authorized to ask whether US would cosponsor but assumed we would not. Gross confirmed we would not but reverted to Jebb's statement this morning that UK wanted to consult Turkey, India and Yugo re cosponsorship. Jebb said there was no harm in trying this and would do so.

Gross said he was authorized to inquire UK reaction to idea of res being tabled soon and SC meeting not being held until after UK elections. He emphasized that was not proposal, but only query. Speculating this would probably mean next SC meeting around October 29, Jebb wondered whether Mosadeq would like idea. Gross stated belief Iranian Prime Minister anxious not to have to make his speech and would welcome added time for negotiation. Jebb said he would put this up to London. He was inclined to think not bad idea. Gross thought if UK interested this it was most important matter to get decision on since it would materially alter tactical approach.

Gross wondered whether it might be good idea for Jebb and himself visit Mosadeq to discuss res. Jebb said it might be but not until 7th vote obtained. He would ask instructions from FonOff. He then announced he would now send draft in confidence to members other than USSR and ascertain reaction. He dispatched Coulson on the spot to prepare appropriate letters of transmittal and evidently planned to go into action soonest.

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[2] Not printed.

[3] Oct. 15.

After meeting Gross informed Lacoste in general of above developments.

AUSTIN

No. 111

S/P–NSC files, lot 62 D 1, NSC 117 Series

Memorandum by the Joint Chiefs of Staff to the Secretary of Defense (Lovett)[1]

TOP SECRET
[NSC 117]

WASHINGTON, 10 October 1951.

MEMORANDUM FOR THE SECRETARY OF DEFENSE

Subject: The Anglo-Iranian Problem.

1. This memorandum is in response to your memorandum, dated 8 October 1951,[2] on the above subject.

2. If Iran passes to the domination of the USSR, the following consequences are to be expected:

a. Immediate loss of Iranian oil and probably eventual loss of all Middle East oil with the consequent greatly increased and possible intolerable deficiency in oil resources;

b. Demonstration of the strength of the Soviet system and of the weak position of the Western World in opposition thereto;

c. Expansion of the Soviet empire to the Persian Gulf and the Indian Ocean;

d. Major threat to the position of Afghanistan, Pakistan, and India;

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[1] Attached to the source text were a memorandum, dated Oct. 17, from the Secretary of Defense to the Executive Secretary of the National Security Council asking that the JCS memorandum be distributed to the President and the Council; a note, dated Oct. 18, from the Executive Secretary indicating that the JCS memorandum was being circulated for the information of the Council; and a cover sheet, dated Oct. 18. These documents were designated NSC 117.

[2] Not found in Department of State files, however, the memorandum dated Oct. 17, referred to in footnote 1 above, reads:

"Paragraph 1 of the Joint Chiefs of Staff memorandum refers to Secretary Lovett's memorandum, dated 8 October 1951. In this memorandum he requested the Joint Chiefs of Staff to present a quick survey of the military judgment of the change in Russian military potential if the Iranian oil should fall into their possession or control. He particularly wished to know if Iranian oil would permit the Russians to continue and [*the*] war longer; if their possession of this oil would require an alteration of our strategic targets; and if it possibly would require an increase in the level of our military establishments."

e. The almost inevitable collapse of Afghanistan to Communism;

f. Such enhancement of the Soviet position in the Middle East as to increase greatly the danger of Communist domination during peacetime of Pakistan, Iraq, Saudi Arabia, and India; and in the event of war to permit prepositioning of USSR military forces with oil immediately available which would greatly increase the chances of their military success against the Middle East and/or Pakistan-India; and

g. Turkey would be so flanked and uncovered as greatly to threaten its military position.

3. If Iran comes under Soviet domination in peacetime:

a. The Truman Doctrine would be breached;

b. The USSR would be provided with a springboard for domination of the entire Middle East; including the Eastern Mediterranean and the Suez Canal areas; prior development by the USSR of bases, facilities, and military stockpiles (including oil) would permit the Soviets to advance greatly any time table for military operations against the Middle East and/or Pakistan-India; and

c. The USSR would be permitted to develop facilities for delivery of Iranian oil to the territory of the USSR.

4. If the Iranian oil problem results in the complete denial to the British of any stake in Iranian oil, the position and prestige of the United Kingdom in the Middle East and possibly throughout the world would, in all probability, be further weakened. Events in Iran cannot be separated from the world situation and specifically from developments in Egypt.

5. The following is responsive to the three specific questions in the paragraph of your memorandum:

a. If Iranian oil should fall to the USSR a greater and, in all probability, a longer effort by the Western Powers would be required to bring about the defeat of the USSR and its satellites;

b. Whether or not any alteration of our strategic targets would be required in the eventuality of control of Iranian oil by the USSR would depend largely upon the length of time available to and the scale of effort by the Soviets for development of facilities for delivery of that oil to the USSR; and

c. If the USSR achieves control of Iran in peacetime, the Soviet power position (including its logistical position) would be so improved that, in all probability, an increase in the level of the military establishments of the Western World would be required.

6. The Joint Chiefs of Staff consider that the United States should take most energetic measures, as a matter of urgency, to support or arrive at the achievement of a solution of the Iranian problem which will:

a. Provide for the continued orientation of Iran toward the Western World (this should receive overriding priority);

b. Make possible an effective command organization for the defense of Iran in coordination with the other areas of the Middle East; and

c. Assure the continued supply of Iranian oil to the Western World, at least during peace.

Accordingly, they would support action which would achieve those objectives, such as an offer by the United States of its "good offices," as outlined in the first paragraph of your memorandum.

7. Strictly from the United States military point of view, Iran's orientation towards the United States in peacetime and maintenance of the British position in the Middle East now transcend in importance the desirability of supporting British oil interests in Iran. The Joint Chiefs of Staff would be forced immediately to reexamine their global strategy in the event that the USSR breached the Truman Doctrine in regard to Iran by measures short of war.

For the Joint Chiefs of Staff:
HOYT S. VANDENBERG
Chief of Staff, United States Air Force

No. 112

888.2553/10-1051

Memorandum of Conversation, by the Special Assistant to the Secretary of State (Battle)

SECRET [WASHINGTON,] October 10, 1951.

MEMORANDUM OF SECRETARY'S CONVERSATION WITH THE PRESIDENT

Following his return from the NSC meeting,[1] the Secretary met with several people in the Department and reported on his conversation with the President following the NSC. Mr. Lovett, Mr. Bohlen and General Smith were also present.

The Secretary told the President that we had concluded that the resolution to be submitted to the Security Council was one which we could support.[2] He said that he thought we were obligated to go along with the British on it, to vote for it, and to help in getting votes for it. He said that we thought we should let the British "call the shots" as to how they proceed, etc., although we might make suggestions to them. He pointed out that a defeat on the resolution might have serious effects on the British, and that similarly a victory might have serious effects as far as making it difficult for Mossadegh, but that we had decided we should support it and plan to do so. The President agreed that this was the proper course.

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[1] The 104th meeting of the National Security Council on Oct. 10, presided over by President Truman. At this meeting the Council discussed the Iranian situation after an oral report by Secretary Acheson. (NSC Action No. 500; S/P-NSC files, lot 62 D 1, "NSC Actions") No record of Secretary Acheson's report has been found in Department of State files; however, on Oct. 10, Rountree and Kitchen prepared a summary of the events since the last briefing of the Council on Aug. 22, and transmitted it to Secretary Acheson under cover of a memorandum from McGhee for use in his briefing of the Council on that day. (Memorandum by McGhee, Oct. 10; 888.2553/10-1051)

[2] See Document 110.

Apparently, information was given at the meeting at the White House to the effect that Mossadegh was most anxious to get a settlement of the oil problem and did not want a Security Council meeting to take place. The Secretary said that this information was authentic. He did not indicate the source of this information. He did say that he was inclined to think that the British should be told this.

The Secretary went on to say to the President that the entire Iranian matter was extremely complicated and serious, and that while we did not understand all of it, he thought there were two great points necessary in order to get a settlement:

1. The first question is whether the British have a chance of going back into Iran as an operator. The Secretary said he was convinced that Mossadegh would not yield on this point. He said he thought that the British were about reconciled to this, but that we must know from the British that this is true and that they do accept the situation.
2. The second question is who gets what from whom in regard to the financial aspects.

These questions lead into those of (a) compensation and (b) discount in the purchase of oil. These two questions ((a) and (b)) overlap somewhat. The Iranians should not result in doing better than Saudi Arabia has in its deal. Probably about a 50% split in profits is a reasonable result. One possibility is to simply split 50–50. Another way is to do it through discount so as to result in the British getting the equivalent of 50% of profits through purchase with discount. If the British are receptive, we could go ahead and try to move Mossadegh toward a 50–50 split.

Our plan is to go to the British and say we will support them in the Security Council on their resolution. We should point out that we think it better to keep the threat over Mossadegh rather than to force a vote when either a victory or defeat might do damage to the possibility of negotiating the problems. We should try to get the British to let us be "brokers" and try to get Mossadegh moving toward a 50–50 arrangement.

The President agreed to this. He could not see anything else that we could do. He thought it well to tell the British, as proposed, because he did not think it fair to operate without their knowledge.

Mr. Acheson said that during the meeting Mr. Lovett made certain suggestions which I did not entirely understand. The proposals were rejected on the ground that they resulted in several things which we did not want to happen, such as building up refinery capacity in Iran, etc.[3]

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[3] On Oct. 11, McGhee transmitted to Holmes, who was in Washington for consultations, a memorandum summarizing this memorandum of conversation and instructing Holmes as follows:

"In connection with your discussion of this matter with the British in London, it should be made clear that the talks which we have had with Dr. Mosadeq up to this time were motivated by Dr. Mosadeq himself, following my courtesy call on him. It should also be made clear that we have no commitment from him, and any reference to what he has told us is on a completely secret basis. The most encouraging aspect of these talks is the fact that he appears sincerely to want a settlement. He also indicated that he believes that the chances for a settlement will be seriously impaired if the Security Council acts on the resolution; that he is anxious to obtain a delay in Council action pending efforts to find a settlement; that he prefers discussions with US representatives at this juncture rather than direct negotiations with the British; that, if the resolution is tabled, he would be willing to defer negotiations until after the British elections, recognizing the difficulties which would be involved in direct talks before then.

"You will recall that in the discussions at the Secretary's residence last evening Ambassador Franks outlined what he considered to be the primary British interests in the matter. These were (a) that Iran have a stable government, (b) that the British have access to the oil in large quantities; (c) that provisions be made for the efficient operation of the industry, (d) that the pricing arrangements be satisfactory, and (e) that satisfactory arrangements be made for compensation." (Memorandum, Oct. 11; 888.2553/10-1151)

No. 113

888.2553/10-851

Memorandum of Conversation, by Colonel Vernon Walters[1]

SECRET NEW YORK, October 11, 1951.

Participants: Prime Minister Mossadegh
Ambassador Earnest A. Gross
Assistant Secretary of State George C. McGhee
Colonel V. Walters

After exchanging greetings, Mr. McGhee said that they had come to see Dr. Mossadegh and that if he had any question about Security Council procedures Ambassador Gross of the United States Delegation to the United Nations was there to help in any way he could.

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[1] The meeting took place at New York Hospital.

Dr. Mossadegh looked quite grim and irritated when the group entered his room. He said that Ambassador Muniz had just been in to see him and had shown him the first resolution which had been prepared and which the Iranians intended to answer. Amb. Muniz also showed him a second resolution which the British intended to use instead of the first one. He did not recognize their right to do this and said that he would answer the first resolution. He had refused to accept from Amb. Muniz the text of the second resolution.[2]

Amb. Gross said that the second resolution was a more constructive one than the first. As he saw it, the problem from the Iranian point of view was two-fold: one, to answer the statement made by Sir Gladwyn Jebb;[3] and the other, to answer the text of the resolution which was presented, which would be the second one. Dr. Mossadegh said that he would answer the statement and the first resolution, which is the one the Iranian Delegation had received. Mr. McGhee at this point said that the first resolution had been much sharper in tone. The United States had endeavored to obtain a constructive type of resolution, and the second resolution embodied considerable progress. If Dr. Mossadegh were to answer the first resolution this would be failing to recognize the progress that had been made.

Dr. Mossadegh then asked Amb. Gross what the procedure was on this matter. Amb. Gross replied that the Charter recognized the right of any member to present a resolution. They could circulate it and if they wanted to they could withdraw it and present another text with amendments. The British were going to circulate the second resolution, which would automatically withdraw the first one. Dr. Mossadegh did not feel that they had a right to do this and said that the Iranians must answer the first resolution. Furthermore the Iranians could never accept the competence of the Security Council on this matter.

Mr. McGhee then asked whether they could not accept the sense of the resolution which was merely a request to the two parties to resume negotiations, even though they could deny the jurisdiction of the Security Council if they felt so inclined. Dr. Mossadegh replied that this would be impossible; to accept the sense of the resolution would imply acceptance of the competence of the Security

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[2] Regarding the first resolution, see Document 92; regarding the second resolution, see Document 110.

[3] Presumably Mosadeq is referring to Jebb's statement on Oct. 1 at the introduction of the first resolution. For the text of Jebb's statement, see *Security Council, Sixth Year, 559th Meeting, 1 October 1951*, pp. 11 ff. An extract is printed in *Documents* (R.I.I.A.) for 1951, pp. 531-539.

Council. Amb. Gross explained that this was not necessarily the case.

Dr. Mossadegh then inquired by what right the British could withdraw the first text of the resolution they had circulated. He wanted to know whether there was anything written in the Charter which authorized this. Amb. Gross said that the Charter set forth the right of all members to present resolutions but did not specify anything regarding the withdrawal of these resolutions. Nevertheless, in practice this has been a recognized right since the inception of the United Nations. He said that, for instance, we had done this three times in connection with resolutions on Korea.

In pointing out a case where a party though denying the competence of the Security Council had nevertheless discussed matters on which it denied competence, Amb. Gross said the Soviet Union had denied the competence of the Security Council on the Korean question but had nevertheless introduced several motions concerning Korea. Dr. Mossadegh replied rather sharply that that was probably because they felt it was to their interest, and every country must have the right to be a judge of its own interests. He then inquired whether there was restriction on freedom of speech in the Security Council. Amb. Gross replied that there certainly was not, that he could say anything he wished. Dr. Mossadegh, somewhat mollified, said he was glad to hear this as he had feared this would not be the case. He would therefore reply to the first resolution.

Amb. Gross explained that the second resolution merely asked Dr. Mossadegh to do what he wanted, namely to resume negotiations. He said that if the British, as Dr. Mossadegh believed, although we did not, were unwilling to resume negotiations, he could use this Security Council resolution to bring pressure on them to do so. The Security Council could well be a tool to help him achieve his objectives. Dr. Mossadegh said that be this as it might, he did not have this tool available to him to use as he wanted.

He reiterated his conviction that this whole question should be settled before it went to the Security Council. He reemphasized the need for speed because of the rapidly deteriorating situation in Iran. He knew the British were trying to drag this out. He had hoped the United States would do something. He had talked to Mr. McGhee several times until two days ago and now nothing had been settled, and the matter was after all going to the Security Council.

Mr. McGhee then said that Amb. Gross had come along to try and be helpful to Dr. Mossadegh in answering any questions he might have concerning the Security Council and wondered whether there was anything else along these lines that Dr. Mossadegh wanted to ask Amb. Gross. Dr. Mossadegh said that there was not.

At this point Amb. Gross, who had another appointment, took his leave.

Mr. McGhee said that he knew Dr. Mossadegh understood that neither he nor the United States had any authority to negotiate as such, but because we were friends of both parties to this dispute we were attempting to use our good offices. In order to be able to be helpful we had to know what the thoughts of both sides were. In the conversations he had had with Dr. Mossadegh he had been exploring the present Iranian position. This was without commitment, yet nevertheless made it possible for us to see whether there were any grounds for hoping that the talks could be resumed. He would understand that in a similar manner we would explore what the British present thinking was and see if there were sufficient grounds for hoping that talks could be resumed. He would understand that this would take time. Dr. Mossadegh expressed agreement with this idea and said he understood it.

Mr. McGhee pointed out that at the time the talks broke down at Tehran there had been disagreement on a number of points; the question of management, compensation, discount rate and so forth. He would not attempt to minimize these differences; they represented serious obstacles that would have to be overcome. Subsequent to the Tehran breakdown, Dr. Mossadegh had made further proposals which represented a modification of his previous position. What we were trying to do was to find out what the present Persian position was and what the present British position was. Mr. McGhee said that some of these differences were legalistic in nature and perhaps he did not understand them too well as he was not a lawyer. Dr. Mossadegh chuckled and said that that was why he liked to talk to Mr. McGhee, because he was not a lawyer.

Mr. McGhee said he wanted to go over some of the principles involved in the oil business with Dr. Mossadegh. He said that as he understood it, Dr. Mossadegh understood the requirement for efficient management and the need for access to technological developments in the world's oil business. Dr. Mossadegh said that indeed he did recognize these two problems. Mr. McGhee said he would like to cite three cases of countries and the results for them of the oil policies which they had adopted.

First there was Mexico, which twenty years ago had nationalized its oil business, driving out the foreign companies and making no provision to insure for itself access to the technical knowledge of the business. During this period, Mexico had fallen from being the world's second largest petroleum exporter to a position where their oil requirements were just about in balance. During that period not a single large new oil field had been brought it, and Mr. McGhee did not feel that Mexico's oil resources were making a serious contribution to the living standard of the Mexican people. Dr Mossadegh said that if a ridiculously small price were paid the producing country for the oil as in the case of Iran, it would be better to leave the oil in the ground. Mr. McGhee said that he was coming to just that case, and he asked Dr. Mossadegh to be patient. Dr. Mossadegh laughed and said he would be.

Mr. McGhee then cited the case of Colombia, a country with great natural resources in petroleum, which had passed very stringent laws making it extremely difficult or impossible for foreign oil companies to operate there, with the result that many fields had been abandoned and the petroleum resources of the country were practically no good at all to Colombia.

Mr. McGhee then said that the third case was that of Venezuela which had made an equitable arrangement, thereby insuring itself a tremendous revenue running into several hundred million dollars a year, making it possible for the Venezuelan Government to undertake projects to improve the living standards of their people. Dr. Mossadegh then fished a paper out of his night table which he claimed indicated that Venezuela's production of crude oil was approximately the same as that of Iran. Mr. McGhee said that while he did not have exact figures he was sure that Venezuela's production was several times larger. Dr. Mossadegh then quoted from his paper the revenue paid the Iranian government and the revenue paid the Venezuelan government. In the case of the latter the sum was very much larger. He said that this illustrated the "theft" committed by the Anglo-Iranian Oil Company in Iran. Mr. McGhee then said that the arrangement in Venezuela was an equitable one, satisfactory to both the Venezuelan government and to the oil companies operating there. He hoped that Dr. Mossadegh would have an opportunity to talk to the Venezuelans while he was here. Dr. Mossadegh was noncommittal on this suggestion.

Mr. McGhee said that we were extremely anxious to be helpful in this question because it was of such importance not only to the Iranians and the British but to the whole free world. Petroleum was one of the sinews of the strength of the free nations of the world. He said that we were interested in seeing that it was produced in adequate quantities and properly distributed around the world. He said that we were anxious to see Iran get a deal which would give her the largest possible revenue and conditions as good as those enjoyed by any nation in the world. He said that Dr. Mossadegh would understand that he could not hope for an arrangement which would be much better than any other prevailing in the industry at the present time. If he attempted to do so, Iran's oil could not be made competitive in the world markets and the petroleum business was one of the most competitive in the world. He said that while we were anxious to see Iran get the best possible deal she could, we could not support an agreement which would destroy the whole fabric of the oil business throughout the world.

Dr. Mossadegh said that the reason for this was that the United States also had oil interests throughout the world and if the Iranians got an arrangement much better than any other, this would tend to upset the pattern in other countries. Mr. McGhee said that this was partly so, but that the stability of the production of petroleum was what we were interested in. The United States government did not own any oil companies; they were all privately owned, independent companies. Dr. Mossadegh then asked whether the United States did not have any financial interest in these companies and was told that it did not. He said that this should make the United States disinterested in the matter. Mr. McGhee said that we were disinterested, but that we merely wished to see an arrangement made which would give fair shares. "What kind of shares?" asked Dr. Mossadegh. Mr. McGhee said some kind of an arrangement generally along the fifty-fifty line. Dr. Mossadegh said that Iran could not accept this. The Russians had offered this kind of a deal for the oil in Northern Iran and if Iran accepted it in Southern Iran they would be obliged to accept it also in Northern Iran. Mr. McGhee said that this was not the case since the Iranians had nationalized their oil business. Dr. Mossadegh said he still felt that they would have to accept a similar deal with the Russians if they accepted it in the South. He said he could not see why they should share with anyone. Their law required that the oil fields be operated by the Iranian government, for the Iranian people.

Mr. McGhee said that it was important that Iranian oil be made competitive or else Iran would lose her markets. Over a period of time the lack of Iranian oil could be made up. He said that this principle of not making an arrangement which would upset the world pattern of the oil business was an important one for the United States. He pointed out that it was not because of the government's financial interest in the American oil business, which was in fact owned by hundreds of thousands of small shareholders, widows, small businessmen and so forth. We believed that the arrangement should be fair and equitable to the countries who owned the subsoil resources and to these little people who put up the money to develop production. He felt that the Venezuelan type of arrangement was fair to both. He emphasized that he was not speaking of a concession or anything of that type but merely the principle of equitable sharing.

Dr. Mossadegh said that an exception must be made in the case of Iran because Iran was a neighbor of the Soviet Union. Saudi Arabia and Venezuela were not. Mr. McGhee said that in this matter there were certain principles which were important to Iran, namely to be masters of their own house, to be secure against outside interference in their internal affairs and to derive the maximum possible revenue from their subsoil resources. He said that the Iranians must understand that this principle of not upsetting the pattern of world trade was an important one to us. He would not press the point at this time but he asked Dr. Mossadegh to keep it in mind and think about it. Dr. Mossadegh said that he would do so.

He said that Mr. McGhee was a reasonable man. He himself would go before the Security Council and defend his country. He would be obliged to deny its competence in this matter, but the question of jurisdiction of course was something the Security Council itself would have to decide. Then, after the Security Council action, he was entirely at Mr. McGhee's disposal for any further talks which might be possible providing that no great period of time would be required, because of the rapidly deteriorating situation in Iran. Mr. McGhee said that he was pleased to hear that Dr. Mossadegh would be available in this way. We were looking forward to seeing him in Washington. Dr. Mossadegh then repeated his readiness to talk, after the Security Council action. He emphasized that this was very confidential and he was only telling Mr. McGhee because he had full confidence in him. Mr. McGhee expressed appreciation for what Dr. Mossadegh had said and said he would return shortly to Washington and as soon as he had something new he would get in touch with Dr. Mossadegh further. He then took leave of Dr. Mossadegh.

No. 114

Editorial Note

Discussion of the Anglo-Iranian Oil Case before the Security Council began on October 15 with the submission of the resolution (S/2358/Rev.1; see Document 110), drafted by the British in consultation with the United States and the consequent withdrawal of the earlier British draft resolution (S/2358). Mosadeq addressed the Council on the same day. He reviewed the Iranian experience with the Anglo-Iranian Oil Company, denied the competence of the International Court of Justice, stated that Iran was ready to reopen negotiations on the questions of the sale of oil and compensation to the company, and concluded that the British resolution was unacceptable because the Security Council was not competent to deal with the complaint.

The question was discussed further at meetings of the Council on October 16, 17, 18, and 19. In the course of these meetings India and Yugoslavia offered amendments to the British resolution which deleted the references to the International Court's opinion. Ambassador Austin spoke for the United States on October 17, accepting the amendments and stating that clearly a dispute existed between the United Kingdom and Iran with which the Security Council should concern itself. On the same day the amendments were accepted by the British, and the new resolution was circulated as S/2358/Rev.2. Following the Council discussion on October 17, it became apparent that there were not enough votes to pass the revised resolution, and on October 19 the Council adopted a French motion calling for adjournment of the debate until the International Court of Justice had ruled on its own competence in the case.

For the texts of the several draft resolutions, see *United Nations Security Council, Official Records, Sixth Year, Supplement for October, November and December, 1951*, pages 2–5; for records of the discussion at the Security Council and the addresses by Mosadeq and Austin, see U.N. Docs. S/PV. 558–563 and 565; for extracts from Mosadeq's speech, see *Documents* (R.I.I.A.) for 1951, pages 540–546; for Austin's speech, see Department of State *Bulletin*, November 5, 1951, pages 746–749.

No. 115

888.2553/10-1451

Memorandum of Conversation, by Colonel Vernon Walters[1]

SECRET NEW YORK, October 15, 1951.

Participants: Prime Minister Mossadegh, Iran
Mr. George C. McGhee, Assistant Secretary of State
Colonel V. Walters

After exchanging pleasantries, Mr. McGhee stated that he had just flown up from Washington to see Dr. Mossadegh as he fully understood the urgency of the situation and Dr. Mossadegh's need for speed in this matter. He had previously explored Dr. Mossadegh's thinking and since he had last seen the Prime Minister we had been exploring the British thinking, and in the light of this we felt justified in going ahead. He said that we were doing everything we could to help Dr. Mossadegh achieve a satisfactory solution of the problem. He said that there were a number of points on which agreement would have to be reached. "Agreement with whom?" asked Dr. Mossadegh. He then went on to say that the Iranians were absolutely unwilling to come to any agreement with either the British government or the AIOC. They could not do this. No one in Iran would accept it. If they reached any agreement with the British they would have to reach a similar agreement with the Russians, this on the principle of reciprocity and equal treatment. The Iranians could not give the British any sort of most-favored-nation treatment or they would be compelled to extend the same treatment to the Soviet Union. Mr. McGhee said this was not quite the case as they had now nationalized the oil fields and there could be no question of giving any concession or other arrangement of a similar nature to the Soviets.

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[1] The meeting took place at Mosadeq's Ritz Tower apartment on Oct. 14.

Dr. Mossadegh then spoke at some length about the seriousness of the situation in Iran and the grave consequences that might ensue if a speedy solution were not achieved. He had come here filled with a desire to reach a speedy solution and now a week had passed and the British had done nothing.

Mr. McGhee assured him that we have been working day and night as honest brokers sounding out both sides. Dr. Mossadegh did understand that we were not negotiating because we did not have any authority to do so. Nothing he said could be construed in any way as a commitment. Dr. Mossadegh said he understood this and likewise anything he said was of a tentative nature and not to be regarded as a commitment. The word "agreement" was explained at some length to Dr. Mossadegh as it seemed to have for him some connotation of a concession type arrangement.

He said that the Stokes proposal[2] was nothing more than a concession in disguise and that it was therefore unacceptable to the Iranians. The question of compensation was then touched upon. Dr. Mossadegh said that Iranians would be prepared to pay compensation on the basis of the stated value of the company's installations in Iran as set forth in the AIOC's annual statement, which amounts to some £27,000,000. Mr. McGhee explained that there was considerable difference between the book value and the sales value or real value of assets. Dr. Mossadegh then asked whether the AIOC would be willing to say by how much they had committed a fraud in their statement. Mr. McGhee said it was not a question of fraud but that normally the book value did not always represent the true sales value of assets. If a company was making money, the true value was usually higher than the book value, and if a company was losing money the true value was usually lower than the book value. In the case of the AIOC, which had been making a substantial profit, it was therefore probably higher than the given figure. Dr. Mossadegh asked Mr. McGhee whether he had any idea what the real value was. Mr. McGhee said he did not. It was not easy to arrive at the valuation of property of this type. However, if the property were located in the U.S. it would be worth a great deal more than £27,000,000, perhaps over a billion dollars. Dr. Mossadegh replied that the property, however, was in Iran and should be valued on that basis. Mr. McGhee said this was true but nevertheless certain values were absolute, regardless of where property was located.

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[2] Regarding the Stokes proposal, see Document 67.

Mr. McGhee asked Dr. Mossadegh whether he himself had any idea as to a final figure. Dr. Mossadegh said he did not and asked whether Mr. McGhee could not get the thinking of the British on this. Mr. McGhee explained the difficulties and time required to obtain a fixed valuation for property such as this. Dr. Mossadegh thought it could be done more quickly. Mr. McGhee then suggested that this might perhaps be taken care of by setting aside a percentage of the profits for compensation and then establishing a procedure for fixing the value of the property. The organization of a Commission or small group to decide the value of the property was discussed. Dr. Mossadegh was fearful of an international group, fearing that it would be influenced by the AIOC and suggested that the President of the U.S. arbitrate this matter. Mr. McGhee said that this was too great a responsibility for us to take on as a government and emphasized the value of an international organization or a small group of neutral experts, pointing out that such a group would consist only of personnel satisfactory to Dr. Mossadegh in whom he had confidence. Dr. Mossadegh, while not accepting this idea outright, nevertheless seemed less hostile to it than previously.

Other aspects of the question were then discussed. Mr. McGhee pointed out that considerable agreement which encouraged him had become evident. Dr. Mossadegh said this was so and suggested that they both write down these matters on which they agreed so that they would be fully aware of them. Mr. McGhee agreed to this and the following items were then written down by Col. Walters in French and English, with Dr. Mossadegh keeping the French copy and Mr. McGhee retaining the copy in English. The paper, on completion, was carefully read over to Dr. Mossadegh paragraph by paragraph, and then in its entirety, and he expressed his approval thereof.

The following were the points set forth:

1. Iran agreed to sell the oil to consumers on the basis of what they have taken over the last three years, through any intermediary the consumers may designate in writing.
2. The Board of Directors of the National Iranian Company will consist of three Iranians and four neutrals.
3. In order to obtain the technicians required, and the access to technology, the National Iranian Oil Company will enter into a contractual arrangement with an outside company on a fee basis. A Dutch company would be acceptable for this purpose. Technicians will have individual contracts with the NIOC.
4. If suitable conditions can be obtained, Iran would be willing to borrow the working capital required from the World Bank.
5. The length of the contract for the procurement of crude oil will be fixed by agreement and will be for at least ten years duration. The price will also be fixed initially by negotiations, and change each year in accordance with variations in world petroleum prices.
6. Under the Board of Directors of the NIOC, there will be a Technical Director of neutral nationality with executive authority over the operations of the company. He will be chosen by the Board of Directors from a nationality to be indicated by the Iranian government.
7. Payment for the crude petroleum will be made in sterling.

In connection with point 4, Mr. McGhee explained that the World Bank, if it were to lend the money as working capital, would probably wish to be able to discuss administrative arrangements with the NIOC, as is normal in banking practices in order to be sure that efficient management was ensured. Dr. Mossadegh expressed assent to this and did not believe it would cause any difficulty.

In connection with point 5, Dr. Mossadegh was anxious to have the price fixed every year. Mr. McGhee explained the difficulty of this to him in that it provided no stability. After some discussion of this point, Dr. Mossadegh finally agreed to the wording whereby the price would be fixed initially, with the flexibility to provide for variations in world petroleum prices.

With regard to point 6, Dr. Mossadegh was anxious for the inclusion of the words "neutral nationality" and also for the sentence indicating that the Iranian government would control the nationality of the Technical Director. He leaned strongly towards the selection of a Swiss, but finally indicated he would be willing to accept a Netherlander. He said that the Dutch were very honest. Mr. McGhee indicated that next to the Americans and the British, the Dutch had the widest experience in this field.

In regard to point 7, Dr. Mossadegh was anxious to include some provision governing the acquisition by the Iranian government of the foreign exchange necessary to carry out their import program. Mr. McGhee explained that the Iranian market was presently a sterling market, which was to the advantage of the Iranians because many of the present customers could not purchase the oil if it were a dollar market. As a matter of fact, some American oil companies were at the present time seeking British authorization to sell for sterling as this would substantially increase their sales. Dr. Mossadegh agreed to receive payment in sterling and to the wording of item 7.

Dr. Mossadegh stated that he was going before the Security Council the following day to present the defense of his country. He laughingly said that they were going to put him in prison and asked if Mr. McGhee would help get him out of jail. Mr. McGhee jokingly said we would be waiting for him at the door. Dr. Mossadegh feared that any resolution of the Security Council recommending negotiations would tie the hands of the Iranians by simultaneously preventing the return of British technicians and the hiring of other technicians such as Germans (from whom he had had many offers). He would much prefer it if the Security Council would adopt no resolution or merely take a non-committal position. (This was the first conversation in which Dr. Mossadegh did not ask that the Security Council declare itself without jurisdiction over this question.) Mr. McGhee said that we were well aware of his feeling on this matter and that any action we or the Security Council took would be in an endeavor to help him solve his problem.

Mr. McGhee said that this whole petroleum question was an extremely complex one with widespread ramifications. Dr. Mossadegh should have confidence in us. We had had wide experience in this matter and he could be sure that we would not be a party to any solution which was unfair to him. Dr. Mossadegh said he had full confidence in us. Mr. McGhee, in pointing out that any solution which was reached must appear reasonable to both sides, [said] it should likewise appear reasonable to us and to world petroleum. Dr. Mossadegh needed the cooperation of world petroleum to operate his business. He could not operate it alone in isolation. Therefore it was essential that whatever arrangement was finally reached, it must appear equitable to world petroleum. It was our policy to recognize nationalization but we feel that prompt, adequate and effective compensation should be paid. If anything were done to violate this policy it would jeopardize the interest of the whole petroleum industry and it would thus be impossible to secure their cooperation to help Iran derive the maximum revenue from her petroleum sources. Dr. Mossadegh indicated agreement with all the foregoing.

Mr. McGhee then said that on the basis of what Dr. Mossadegh had given him he would sound out the British. He inquired whether Dr. Mossadegh would be willing to wait until after the British elections providing satisfactory progress were made in talks prior to that time. He pointed out how difficult it would be for the British politically to make a final decision prior to the elections. Dr. Mossadegh said he understood and would be willing to wait until after the election.

Mr. McGhee then inquired of Dr. Mossadegh when he would like to come to Washington. Dr. Mossadegh said he would like to as soon as he got out of jail (the Security Council). Mr. McGhee said that the President and Secretary were anxious to see him and talk to him. He also said that Dr. Mossadegh might visit the TV hydroelectric installations and perhaps one of our spas, like White Sulphur Springs. Dr. Mossadegh said he would like to but of course his health would govern this.

Mr. McGhee invited Dr. Mossadegh down to his farm near Washington and Dr. Mossadegh said he would like very much to come. He also is a farmer and would like nothing better than to give up political life and return to his farm. Mr. McGhee said that he would return to Washington immediately and go to work on what Dr. Mossadegh had given him. He would get in touch with Dr. Mossadegh immediately after the Security Council had met. He excused himself for keeping Dr. Mossadegh up so late, and the talk then concluded.

No. 116

888.2553/10-2251: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET PRIORITY TEHRAN, October 22, 1951—4 p. m.

1478. Altho recent rapid and serious developments in oil dispute have prevented my consultation with Brits at length on subj raised Deptels 642 and 645 September 25,[2] I consider it pertinent and important give Dept at this time current Emb appraisal Iran sitn.

Fol not discussed with Brit but will be soon. Doubtful if Brit appraisal will coincide with that of Emb.

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[1] Transmitted in three sections and repeated to London.

[2] Telegram 642 reported that no limit should be placed on the topics or categories which the British and U.S. Ambassadors should examine to prepare a joint estimate of the Iranian situation. Telegram 645 repeated the text of a cable from London that suggested six broad fields for joint examination. (888.2553/9-2051 and 9-2551)

US policy.

Emb believes basic postulates US policy are determination Iran shall not fall into Commie hands and that it shall become willing partner of free world.

Principal factors in Iran today.

a. Strong popular current of anti-fon nationalism, personified and led by PriMin Mosadeq and Natl Front supporters.

b. Constitutional monarchy, headed by indecisive and weak though well-intentioned Shah.

c. Small oligarchy of landowners and merchants, motivated by complete self-interest, and currently supporting Shah.

d. Running sore of oil dispute with Brit, with attendant dislocation of Iran's economy.

e. Security forces in gen still loyal to Shah.

f. Influence of . . . Mullahs affecting all phases Iran life . . . .

g. Depressed econ and social conditions of majority of population, with resultant discontent (see Embtel 1479, October 22[3]).

h. Commie exploitation of sitn.

i. Decline in western influence.

Emb appraisal character and influence these elements.

a. Emb considers rising Iran nationalism present venting itself through oil dispute is real and potent force. Irans, in gen, resent and suspect all foreigners, and Emb believes Iran nationalism at this time directed particularly at Brit not likely wane in near future.

Mosadeq and Natl Front politicians have encouraged and used nationalist sentiments to come to power. However, their removal or defeat will not eliminate Iran nationalism. Public opinion almost certain to support any other leader or movement in future which panders to this nationalism and to oppose what might be considered as appeasement of foreigner at expense Iran. Econ considerations are secondary to these vague but fierce and pervasive emotions.

Inability of Brit-encouraged Majlis opposition to oust Mosadeq govt and unanimous pol support of PriMin's mission to UN serve to emphasize futility of hopes that nationalist movement only superficial or that "strong man" govt cld succeed in restoring Brit-managed concession on basis similar to that of past.

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[3] Telegram 1479 presented a detailed financial and economic picture which concluded that economic conditions in Iran were worse, but not much worse than in normal years, while the financial situation was bad and deteriorating rapidly. (888.2553/10-2251)

Demonstrated pol ability of Mosadeq as shrewd leader national front minority and demagogue who well understands Iran emotions and character, his personal prejudices against Brit, his undoubted understanding of Russian intentions in Iran, and his almost megalomaniac desire to act as champion of people in struggle for "independence" are important factors to be considered in present sitn.

b. The Shah might be factor for stability, continuity of leadership, and resistance to communism in Iran. He appears however to have no confidence in his own influence; at least he apparently does not regard it as opportune to endeavor to exert it against present govt.

He has thus far been unable to use nationalist elements to strengthen crown or to effect much needed reforms in face landowning-merchant oligarchy. He is probably correct in his belief if he shld try just now remove Mosadeq from Premiership, or if he shld take any other measure which might seem to run counter to nationalist aspirations, prestige and influence of crown wld suffer severely and he might even be overthrown.

Disappearance of Shah wld mean loss to western world of potentially powerful anti-Commie element and ensuing struggle for power might lead to chaos which organized Tudeh Party wld exploit.

c. The landowner-merchant oligarchy has been one of main obstacles to progress of Iranian people and to development of country's resources. It has tenaciously fought for maintenance of *status quo*. While supporting Shah as stabilizing factor in country, it has obstructed his inclinations toward reforms. This feudal group is anxious to perpetuate itself and is governed by complete self-interest.

d. Oil dispute with British, with attendant dislocation of Iran's economy as result cessation oil industry, is greatest factor for instability in Iran today. Political and popular emotions have been increasingly exacerbated by this issue during past year. Even "opposition" has recently declared it will support govt until oil question settled. Failure to obtain usual oil revenues will affect govt bureaucracy and mil forces seriously as salaries and supplies lag behind. Trade standstill and gen econ consequences discussed (Embtel 1479, Oct 22). Finally, until revenues again begin flow from oil industry, govt, even if so inclined, can [not?] turn to public works or improvement miserable social and econ conditions majority population.

Decline of British influence in Iran weakens Iranian resistance to communism and Soviet pressure. Iranians long accustomed playing foreign powers against each other, may dangerously allow selves be vulnerable Soviet penetration to such extent that if or when they turn later to western world to save them from Soviet domination their position will already have become irretrievable. British influence has been extensive, sometimes from our point of view shortsighted, but nonetheless effective in past in keeping Russians from gaining control all of Iran.

e. There is still great loyalty to Shah among security forces. US advisory missions to these forces assist in maintaining their effectiveness for internal security.

Nevertheless mil units in Iran are weak reeds for Shah, govt or free world to rely upon. Lower ranks are discontented and ill paid, junior officers reportedly are receptive to Commie propaganda, and senior officers often are incompetent and corrupt. In view of anti-mil sentiments of Mosadeq it is not unlikely US mil missions will be hampered in their operations and may even be forced eventually to leave. This last development wld be most serious blow to US policy.

f. . . . religious leaders, such as Mullah Kashani, have been gaining increasing prominence and influence under Mosadeq govt. Anti-British slogans, particularly those connected with oil dispute, ... Movement to drive out British has gained almost significance of religious crusade in some quarters. Shld any Iranian Govt agree to restoration British control Iranian oil industry, there wld be religious fanatics ready to stir up popular emotions and to assassinate responsible officials. Religious fanaticism can be used to combat communism, but it cannot be employed as constructive forger for country's progress.

g. For appraisal econ factors see Embtel 1479, Oct 22.

h. Strength of Tudeh Parties in key areas as fols: (1) Tehran 4,000 to 8,000 hardcore with party members and sponsored groups totalling 35,000 maximum; (2) Khuzistan approx 5,000 party members among oil workers; (3) Azerbaijan and Gilan strong though unestimated membership.

Potential for rapid party increase based on fact its platform parallels that of Natl Front and its activities known to public only as stooge organs (peace fronts). Any deviation of Natl Front leaders from present extremist course wld probably result in rapid increase Tudeh following and consequent upsurge in power. In this event party cld become prime threat to present polit order.

Above possibility cld arise through Iranian popular misconception of nature of Tudeh, which is widely viewed as indigenous political movement advocating reforms close to heart of populace. Sitn is further complicated by confidence Natl Front leaders in their own superior astuteness and in their ability at proper time to handle Tudeh and Communists.

With regard to USSR, average Iranian fails see any present tangible evidence of Sov imperialism whereas he imagines he sees numerous signs of endeavors Brits and Americans maintain old controls and even obtain new holds in country. His imagination in this regard is continually sharpened by steady barrage clever Sov propaganda. USSR is queen of airwaves in this area. At any time one can hear Sov propaganda on various short and long wave lengths in several languages.

At present Communists are spurring nationalist drive to oust Brits from Iran and follow tactics prevent as much as possible any deviation from anti-Brit line. When western powers driven from Iran and influence destroyed, Communists may be expected implement second stage their long range objectives—destruction of all remaining rivals for power in Iran.

US recent position in SC oil dispute has been construed here as substantive support of UK and may be expected increase Tudeh potential directly and indirectly thru resultant tendency of Natl Front and its popular supporters turn toward USSR. Granted time and over longer range this may create environment favorable to Tudeh power seizure attempt. Several recent estimates assert Tudeh in any early national election cld obtain 20 Majlis seats, wld be in position to exert influence far out of proportion to numbers, and wld be able demand Cabinet participation.

i. Present direction taken by Iranian nationalism as exemplified by its attitude towards Brit oil interests has served to decrease western influence particularly Brit. Relative responsibility US on behalf free world in prevention Iran from passing into Sov sphere has increased as result. It shld be realized that despite gen condemnation thruout country Brits still have most powerful unseen support which might be effectively mobilized in certain circumstances. For instance if as result understanding attitude on part Brit oil dispute cld be settled in manner inoffensive to reasonable Iran nationalist elements or if Russians or Communists shld make misstep in their program, Brits might still stage comeback. Their former position, however, as far as oil is concerned, can never be restored. We hope to present specific recommendations shortly.

HENDERSON

E. The Visit of Prime Minister Mosadeq to Washington and the Interest of the World Bank in Resolving the Oil Dispute

No. 117

888.2553/10-2351

Memorandum of Conversation, by Colonel Vernon Walters[1]

TOP SECRET WASHINGTON, October 23, 1951.

Present: The President of the United States
Secretary of State Acheson
Prime Minister Mossadegh
Lt. Colonel Walters

The President opened the conversation by saying that he did not wish to go into the problems which had brought Dr. Mossadegh to the United States during lunch because he wanted the Prime Minister to enjoy lunch.

The Prime Minister replied that he had had a good rest and a good lunch, and was completely at the President's disposal for anything he wished to say.

The President said that we were vitally interested in seeing that a just settlement was reached on this problem. We were the friends of the Iranians and likewise the friends of the British. We had no national or private interest in the matter other than achieving a fair settlement.

Dr. Mossadegh replied that he knew this, and it was with this hope that he had come to Washington. The President then said that this was the fundamental basis of our thinking on this whole problem.

Secretary Acheson then said that the President had accurately set forth the situation; that our only interest was in seeing this problem settled between our friends. He said that we had had, through Mr. McGhee, a number of useful conversations with Dr. Mossadegh. If he understood the Prime Minister's thinking correctly from what had been reported to him, he believed that the fundamental point which the Prime Minister had in mind was that the British operation of the oil industry in Iran—with the possibilities that this gave for interference in the internal affairs of the country—must cease. On other matters, as he understood it, the Prime Minister was ready to come to a reasonable settlement.

Dr. Mossadegh stated that this was the case.

The President then asked whether the British had been informed of these talks. Secretary Acheson indicated that they had not. He said that we would respect the Prime Minister's confidence . . . . Dr. Mossadegh expressed his appreciation for this protection of his confidence.

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[1] The meeting took place at Blair House.

Dr. Mossadegh said that the United States had helped Iran in some small matters, in particular projects such as locust control and DDT, but had not given large-scale assistance to Iran, even though help had been given to most of the other countries. He did not know what the reason for this was. If some other help had been given with which he was not familiar, he would like to know about it.

The President said that perhaps it had seemed to the Iranians that what we had done had been small, but much of it had considerable long-term significance in the development of the country. We had been faced with the problem of helping almost the whole world. We had had problems such as in China, where we had to try to see how we could help without furnishing equipment to the Reds.

Dr. Mossadegh then said that he had come to the United States not merely to talk about the oil question, but also about other assistance to Iran. The Prime Minister said that the present situation in Iran, if it were to continue for any length of time, would gravely endanger the independence of that country and the preservation of peace.

The President said that we were well aware of that fact; that there were problems throughout the area; in Kashmir, and now in Suez. Russia was sitting like a vulture on the fence waiting to pounce on the oil. That is why we were so anxious to get these problems solved. Our only interest was in well being for all and preservation of peace. If the Russians secured this oil, they would then be in a position to wage a world war. They are not in a position to do so now.

Dr. Mossadegh said he understood this, and that is why they were asking the President and the Secretary of State to help them and protect them.

The President said this brought us back to the situation of first settling this major problem and then getting down to work on the others.

Dr. Mossadegh said that the situation in Iran was extremely grave; the armed forces and the police had not been paid for two months; that in itself constituted a grave danger. The budget had a deficit of some 400,000,000 tomans. Poverty and unrest were prevalent throughout the country. The school teachers earned 100 tomans a month, or an equivalent of $25. This was barely sufficient to pay for the rent of one room a month. In consequence, many of them had become sympathetic to communism and were spreading this idea throughout the school system. Iran was a very poor country and the United States was a very rich country. The Prime Minister said that though this was the case, he had not come to beg, but rather to point out that after the solution of the oil problem, there would still be difficulties, as the oil revenue would not be sufficient to take care of all Iran's needs. The Iranian Army presently had some 100,000 men. If the Iranians were to increase their armed forces they would have to take men away from the farm, with a consequent loss of agricultural production.

The President said that he understood that Iran had always been self-sufficient in so far as foodstuffs were concerned. The Prime Minister said that Iran was currently importing wheat. The President pointed out that this was due to a bad crop last year, and Dr. Mossadegh said that this was the case.

Secretary Acheson said that Iran was really a rich country.[2]

The President said that he had had studies made in Syria, Iraq, Iran and the northern part of India, and it had developed from these studies that there were enormous potentialities of foodstuffs in this area if they were developed. He said that though Iran was smaller than the United States, its farm potential was nearly as great.

The President then said that in the United States in 1933 we had had a situation where there were 12 to 13 million unemployed; the farmers were desperate because of mortgage foreclosures. First, there had been the New Deal, then the Fair Deal, whereby a floor was put under wages, farm prices were fixed, rents were controlled, and other measures taken to remedy this serious situation. We had had to run for some time on a deficit; but around 1939 the situation had reached a proper balance and an equitable distribution of wealth. The President said that if the Iranians could settle this difference with Britain and take the necessary measures, they had enormous possibilities and we would be happy and willing to help them.

Secretary Acheson said that the President had put the case very well. The first thing to do was to obtain an equitable solution of this major problem, then take the measures which the President had indicated and the question of foreign aid would not present real difficulties. Secretary Acheson emphasized that we were anxious to see this matter settled once and for all on a basis which would *not* destroy the whole fabric of oil agreements around the world. Dr. Mossadegh nodded agreement to this.

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[2] For a slightly different account of this part of the conversation, see Acheson, *Present at the Creation*, p. 504.

The President said that he felt the Iranians could do these things and obtain a proper distribution of wealth, although he himself was no socialist.

Dr. Mossadegh said that he was happy to hear what the President had to say. His whole purpose had been to show that his problem was twofold. One was to settle the oil question and the other to obtain help to increase production of foodstuffs.

Secretary Acheson indicated that he would see Dr. Mossadegh on the following day.[3] The President said that Dr. Mossadegh would be talking further with Secretary Acheson. He could speak with Mr. Acheson just as though he were speaking to the President himself. The President said that Dr. Mossadegh could talk fully and freely with Mr. Acheson; the Secretary was an honest man who would respect his confidence. Dr. Mossadegh said he was very pleased to hear this and was looking forward to the opportunity of talking to the Secretary.

The Prime Minister then expressed his thanks to the President for having received him and given him this opportunity to discuss his country's problems.[4]

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[3] See the memorandum of conversation, *infra*.

[4] On the following day, Mosadeq met again with Acheson, McGhee, Nitze, and Walters. Presumably it is the meeting described in Acheson, *Present at the Creation*, p. 510. A memorandum of the conversation by Walters is in file 888.2553/10-2451.

No. 118

888.2553/10-2851

Memorandum of Conversation, by Colonel Vernon Walters[1]

SECRET WASHINGTON, 28 October 1951.

Present: Prime Minister Mossadegh
Assistant Secretary of State McGhee
Lt. Col. Walters

After exchanging the usual amenities, the Prime Minister indicated to Mr. McGhee that he was somewhat disquieted over the results of the British elections. He felt that the Conservatives would prove more intransigent than had the Laborites.[2] Mr. McGhee replied that the Conservatives had obtained a working majority and their hands were much more free than had been the Laborites who had been living in the shadow of an election. Dr. Mossadegh said that he had only wished that he had bet with Mr. Nitze concerning the election results. He would have won some money.

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[1] The meeting took place at the Shoreham Hotel.

[2] Mosadeq had expressed similar feelings to Colonel Walters on Oct. 27. (Memorandum of conversation, Oct. 27; 888.2553/10-2751)

The Prime Minister expressed his worry over the deteriorating internal situation in Iran. He felt that he must return soon. In the meantime he would like to obtain an advance from the World Bank to provide him with funds to meet his current expenditures as the piling up of arrears in government salaries presented an ever increasing danger. Mr. McGhee said that he understood the need for speed. His thinking had been that if a price could be agreed upon, something might be initialed the following day. He could not see what advantage there would be to the Prime Minister's hurrying off. If he could not obtain the advance, what could he do in Iran? The Prime Minister replied that he felt he could control the situation in Iran if he were there personally and that if he could not obtain the advance, he would float an internal loan. He felt, nevertheless, that it would be easier to obtain the advance. He would pay any rate of interest and would pledge the very first revenue from oil to repay this loan if the World Bank would grant it. Mr. McGhee said unfortunately the World Bank did not handle this type of loan but that it was a commercial proposition and perhaps some private bank would handle it; but there was always the problem of the title to the oil until an agreement was reached. Either way, it could not be arranged in ten days. The procedure that the request must go through would take longer. Therefore, he felt that if an agreement could be reached quickly, the advance might be secured from the purchasing organization. Dr. Mossadegh said that he could, if necessary, post the Iranian gold in South Africa as collateral. Mr. McGhee asked what this gold was and Dr. Mossadegh said that it was 50 tons of gold turned over by Great Britain to compensate for British issuance of currency in Iran during the war. The Russians likewise were holding some Iranian gold and the Soviet Ambassador had indicated that he would not turn over this gold until the British turned over the British-held gold to the Iranians. The Prime Minister said that, on second thought, he did not think he could borrow on this since this gold was part of the currency coverage. He wondered if the United States Government could advise some bank to lend him the money. Mr. McGhee said that the Government could not interfere with private banking and that Congress was not in session. He pointed out that there was the $25,000,000 Export-Import loan and the $25,000,000 grant to Iran. Dr. Mossadegh inquired whether he could not obtain the grant to defray his current expenditures. He was told this was not possible as it was only to be used for developmental purposes. Mr. McGhee again emphasized that by far the most desirable way of solving this was to reach a speedy agreement. Dr. Mossadegh said there were four points he would like to make and have them inserted in any agreement that was reached. First of all he felt the agreement should state what court would be competent to handle any questions between the company running the refinery and the Iranian Government. He felt that the competent court should be the Iranian "Cour de Cassation." Mr. McGhee indicated that in a matter involving two nationalities, they might like some neutral body. He inquired whether Dr. Mossadegh would consider the World Court. Dr. Mossadegh said that this was quite impossible. The Iranians had had quite enough of the World Court. It must be an Iranian court or it would be tantamount to the Iranians disowning their own courts. Mr. McGhee said that if the agreement was carefully worked out, he would not see where there would be any difficulty. The Prime Minister said that there could be difficulties under any agreement and the court with jurisdiction should be defined.

He then said that he would also like to have something inserted in the agreement concerning the question of housing at Abadan. He himself had not been to Abadan but he knew of the bad conditions prevailing there. He felt that the company owning and operating the refinery should be under the obligation of undertaking a housing program during the first three years of its operation at Abadan.

He felt that there should be a program for training Iranian technicians which would work in the following manner: During the first five (5) years the company could operate the refinery with foreign technicians only. During the second five-year period, they should be required to have one-third Iranians, and during the third five-year period, they should be required to have two-thirds Iranians. This would insure the training of Iranian technicians. He said that at the end of fifteen (15) years, the refinery—as is the case with all concessions—should revert to the Iranian Government. Mr. McGhee said that this matter would complicate the whole question. The refinery would not be a concession but would merely be a factory operating on Iranian soil. He pointed out to Dr. Mossadegh that he did not feel it would be advisable for the Iranian Government to attempt to run this as a factory, saying that the factories presently being run by the Iranian Government were losing money. The Prime Minister said that this was so. Mr. McGhee said this would greatly jeopardize the possibility of reaching an agreement on the question and the Prime Minister, after some argument, finally indicated he would bow to Mr. McGhee on this matter and would withdraw his insistence on it. But he would like provisions to be made concerning the training of specialists and the requirements of one-third Iranians for the second five years and two-thirds for the third five-year period.

Dr. Mossadegh said that he would also like to have inserted in the agreement a clause which would require the refinery to refine a million tons of oil a year for the Iranian Government as this was the internal consumption of Iran. Mr. McGhee did not feel that there would be any serious difficulties but he hoped that the Prime Minister would [not?] go into too much detail in the agreement. The Prime Minister said that he agreed. He wished to make the agreement simple. He said the Anglo-Iranian Oil Company's 1933 agreement was so voluminous that no one could understand it. He wished to make this agreement simple so that anyone could understand it.

The Prime Minister indicated that he could not sign any agreement until he had first submitted it to the Parliament and the Parliamentary commissions for approval. This was required by Article 23 of the Iranian constitution. He indicated that he would forward the agreement to the Parliament without publicly endorsing it. Mr. McGhee asked why he could not endorse it, as it would be more effective if he did. He was not only the leader of the nationalist front, but also the leader of the whole movement which had culminated in the nationalization of the oil industry; and if he felt it was a just agreement, the chances of its approval were much greater. The Prime Minister replied that if he endorsed it publicly, the agreement would have a more difficult time in the Parliament than if he said nothing. He will handle the matter according to his judgment of the best way to do it. He indicated that he would work behind the scenes to obtain its approval; and if asked point blank what his opinion was, he would say he thought it was the best deal that could be made. Mr. McGhee pointed out that he would have a difficult time selling this to the British as they would have to make a number of concessions. He asked the Prime Minister how long he thought it would take to obtain the approval of the Majlis. The Prime Minister indicated that to obtain an opinion from the Parliamentary commissions would take about ten days and formal approval by the Parliament would take a good deal longer. Both he and Mr. McGhee were concerned about the length of time that would elapse before the agreement was approved. Mr. McGhee indicated that if the agreement were approved speedily, advances could be obtained from the purchasing company.

The Prime Minister said he would like to handle the matter in the following manner: There would be a bilateral agreement with the U.K. Government acting on behalf of the AIOC concerning compensation and declaring that the claims of both sides were canceled. Mr. McGhee said that there should be something inserted concerning turning over the refinery to the Dutch company which would then pay compensation to the AIOC. If this were not included, it would make it much more difficult for the British to accept. The Prime Minister was reluctant to include this in the agreement with the British but did not object flatly. The Prime Minister said that there would also be a bilateral agreement between the Iranian Government and the Dutch company operating the refinery, and in this there would be given the assurance against nationalization for a certain period as well as the conditions on price, taxes, etc. The Prime Minister indicated that he had withdrawn his idea that the refining company might be exempt from taxes if they paid a higher price for the crude petroleum. Finally the Prime Minister said he would make a unilateral statement concerning the Board of Directors of the NIOC and other purely internal matters.

Mr. McGhee said that the United States wants to help in this question. They will try to meet Dr. Mossadegh's requirements. They may not be able to meet all of them, but they will nevertheless try to work out something acceptable to him. Mr. McGhee then inquired whether we should talk with Mr. Hassibi or not. The Prime Minister said he would talk with Mr. Hassibi and would then talk with us. He would also like to go into the question of procedure as to how the matter would be handled. In reply to the question, he indicated he would be willing to talk further in this matter on the following day at 4:00 o'clock.[3]

Mr. McGhee said that the Prime Minister had two alternatives before him. If he reached the agreement, he would have been successful in achieving his objectives; the British and American Governments would be satisfied that the matter had been handled legally; he would obtain the cooperation of the world petroleum industry which would feel that everything had been done in a satisfactory manner; and he would have provided for Iran a revenue many times larger than anything that had ever been available before. He would have guaranteed his country against foreign interference and insured its independence. The United States would also sign the agreement and this would be an additional guaranty for Dr. Mossadegh that we would see that it was satisfactorily carried out. Dr. Mossadegh said this was indeed so. He desired to have the friendliest relations with the British Government because this was in the interest of Iran. Mr. McGhee then pointed out that if no agreement was reached, Dr. Mossadegh would find himself in a situation where he would have no revenue from the petroleum industry which he would have great difficulty in operating; no one would want to come and buy his petroleum with threats of suits by the AIOC hanging over them; the world petroleum industry would be hostile to him, feeling he had treated them badly; and he would not be able to apply the immense revenue that could be supplied by the oil business to improve the condition of his country. The Prime Minister said he understood that and for this reason he was desirous of solving the whole question as quickly as possible.

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[3] On Oct. 29, McGhee accompanied by Nitze again discussed the price of oil with Mosadeq, but they were unable to get the Prime Minister to agree on any price lower than $1.75 at the Persian Gulf. Mosadeq stated that any price lower than $1.75 would be unacceptable in Iran and further reiterated his opposition to exempting the refinery from Iranian taxes. (Memorandum of conversation, Oct. 29; 888.2553/10-2951)

No. 119

[illegible]53/10-3051: Telegram

The Acting Secretary of State to the Embassy in the United Kingdom[1]

TOP SECRET NIACT WASHINGTON, October 30, 1951—8:19 p. m.

2256. Substance fol shld be conveyed by Amb to Brit FonOff soonest.

1. With knowledge and consent of BritGov, US reps have held series talks with PriMin Mosadeq in endeavor formulate reasonable plan as basis for settlement of oil controversy which wld have chance of acceptance by him and Brit. In these discussions it has been made clear to Dr. Mosadeq that we were not negotiating and cld not negot on behalf of Brit interests, but that we hoped result might be development of a concrete proposal which wld be found acceptable by IranGov and BritGov. We have thus endeavored to obtain from him maximum concessions which wld make this possible. The mutuality of interests which we have with Brit in this matter, and recognition of probable effects upon oil investments elsewhere, have strongly motivated our efforts.

2. PriMin Mosadeq has indicated how far he wld be prepared to go with respect to several principal elements of problem, although it is understood that nothing that he has told us can be construed as a commitment until there is clear evidence that BritGov wld be prepared simultaneously to commit itself. In meantime it is imperative that substance of discussions between US reps and Dr. Mosadeq be held in strictest secrecy.

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[1] Drafted by Rountree and cleared by Bonbright, Linder, Nitze, and Matthews. Repeated to Paris, eyes only for Secretary Acheson, and to Tehran, eyes only for Ambassador Henderson.

3. Brit shld understand that US has regretfully concluded, on basis of all evidence presently available, that no arrangement with IranGov is possible which wld entail return of AIOC to Iran in any form, or employment of Brit firm for operations in that country. We are fully aware of unfortunate precedent which acceptance of this fact may have upon operations of oil companies elsewhere. There has been some flexibility in positions that Dr. Mosadeq has taken with respect to other aspects of matter, but on this question there has been no flexibility. We are convinced that sit in Iran is such that present govt or any other govt cld not yield on this point. We are hopeful that if this conclusion is accepted by Brit, settlement can be reached and believe that suggested basis for settlement which we now put to Brit for consideration has much to commend it.

4. Principal aspects of possible settlement relate to questions of management of industry in Iran; status of Abadan refinery; compensation in light of various claims and counter claims of both parties; and necessary arrangements in connection with sale of oil.

5. Irans are convinced that they can, by employing fon experts in management and technical positions and fon oil co as consultant, effectively conduct operations within Iran relating to the production of oil. In conversation here, however, Irans apparently aware of the enormous difficulties inherent in their running complex refinery. In discussions of this problem and also of problem of compensation arising out of nationalization of refinery, we have explored possibility that Iran wld agree to exclude Abadan refinery from nationalization and permit AIOC to sell it to another fon co (preferably Dutch) which wld operate it. This suggestion is significant part of plan. It wld have advantage of eliminating question of compensation by IranGov for refinery and assuring effective management of refinery and control of products by responsible co. We believe, however, that Iran will not agree to sale of refinery to another Brit co or operation by another co as agent of Brit co, but may agree to ownership and operation by Dutch firm. No doubt appropriate arrangements cld be made between AIOC and Dutch firm for sale, which shld not be of concern to Irans. It is probable that Iran will insist that new firm not employ Brit technicians in Iran except perhaps in initial period of resumption of operations.

6. Suggested basis for settlement contemplates that NIOC wld be directly responsible for all aspects of production of crude oil. Although we wld have preferred agency arrangement, we believe that arrangement which Irans prepared accept wld be workable. While Dr. Mosadeq wld not agree to inclusion of conditions for internal operation of NIOC in agreement it is believed he wld be prepared to give adequate unilateral assurance at time agreement is negoti-

ated, and make appropriate provision in NIOC statutes, upon fol pts:

NIOC will be governed by board of three Irans and four neutrals, to be employed by NIOC. Neutral gen manager (non-Brit) of nationality designated by IranGov with proven managerial competence will be appointed by and be responsible to board of directors. NIOC will, upon recommendation of gen manager and board of directors, retain as consultants a large oil co (Dutch) with internatl experience, through which NIOC will have access to modern technological methods and whose assistance will be obtained in creating within NIOC the necessary research and management org. Gen manager will be empowered to employ in NIOC necessary fon technicians on an individual contract basis. NIOC under management thus created will assure efficient operations of oil industry in Iran.

7. Plan envisages that if new agreement negotiated by Iran and Great Britain in which mutuality of interests between them is taken into account, and if AIOC permitted to sell refinery to another fon co, claims and counter claims of both parties relating to compensation for producing properties and other physical assets outside refinery will be offset against each other with no payments made by either side. This wld include Iran claims to past royalties under unratified supplementary agreement. Important consideration in relation to compensation is, of course, that AIOC wld continue to receive major portion of Iran oil at prices which wld make it finan attractive to them.

8. A primary concern in discussions with Irans has been that finan arrangements must be such as to make it profitable for AIOC to continue to buy large quantities of Iran oil over long period of time. Moreover arrangement must be such as not seriously to dislocate fabric of oil business throughout world. It is clear that IranGov will not accept "sharing of profits" as such. This problem wld be considerably simplified if refinery sold to another fon co which wld operate it. Under the plan IranGov wld receive its revenue from the sale of crude oil and from an income tax in conformity with existing Iran law (approximately 55%) upon the profit or fee recd by the refinery operating co. It is proposed that Iran agree that the refinery tax will not be increased nor the refinery nationalized during the term of agreement. Thus the price for which crude oil is to be sold to AIOC purchasing org for refinery and for export, and the amount of the refinery tax, wld be crux of finan terms vis-à-vis the IranGov.

9. Based upon Persian Gulf value of crude oil at $1.75 per barrel, a contract price of sterling equivalent to something in vicinity of $1.10 to AIOC purchasing org shld, in the considered judgment of US, be low enough to provide AIOC incentive to purchase the quantities previously refined and sold as crude, and wld not destroy

the principle of 50-50 sharing of profits to detriment of existing arrangements in other oil producing countries. IranGov wld cover from proceeds at this price costs of production including necessary capital investments. We do not consider this price to be in excess of other nec costs, including production and pipeline costs, necessary capital investments in production and pipelines, and payments to local govts. Agreement wld, of course, have to include formula under which price paid to IranGov wld fluctuate in accordance with changes in internatl oil prices. It shld be made clear that Irans have not agreed to this price and that this will be most difficult pt.[2] We consider it vital to other concessionary arrangements that the price established be in this gen order of magnitude.

10. Arrangements between AIOC purchasing org and new refinery owner might provide for operating expenses plus a fixed fee. Under this arrangement IranGov wld receive through taxation an established percentage of whatever "refinery profit" is set by the AIOC and the operating co.

11. Fol is outline of the elements of a settlement which, although it does not necessarily meet all of the present positions of either party, nevertheless, in our judgment, provides basis for settlement which might be found acceptable to both parties: *Begin Suggested Basis for Settlement:*

I. Management

(a) The NIOC will be directly responsible for all aspects of exploration, production and transportation of crude oil in Iran and will make suitable arrangements to assure efficient operations in Iran.

(b) Abadan refinery will be sold by AIOC (on terms to be determined by AIOC and the buyer) to a non-Brit fon concern which will operate it. This concern will be permitted to employ fon technicians of its own nationality or other nationality mutually agreed by IranGov and operating co. The buyer will undertake to train Irans as rapidly as practicable to the end that Irans will in time fill technical and managerial posts up to the highest level.

(c) New owner will operate the refinery on the basis of costs plus an established refinery profit or a fee to be paid by the AIOC purchasing org, established in accordance with II (a) below. (See also II (c) below)

(d) Kermanshah refinery, producing for internal Iran requirements, will be owned and operated by NIOC.

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[2] Following the discussion on Oct. 29 (footnote 3, *supra*), McGhee met again with Mosadeq Oct. 30 to consider the price question further. McGhee explained in detail the arrangements in Saudi Arabia and Kuwait, indicating that prices in those countries were well below $1.75, but Mosadeq remained adamant in his insistence on the figure. (Memorandum of conversation, Oct. 30; 888.2553/10-3051)

II. Marketing

(a) AIOC will establish a purchasing org to buy, ship and market Iran oil on behalf of the former customers of that oil, provided such customers evidence their willingness in writing to have the new org act in this respect.

(b) Purchasing org will contract to buy for a period of fifteen years crude oil produced by the NIOC, for crude oil requirements of the Abadan refinery and for export. The quantity shall be a minimum of 30 mil tons per annum, after requirements for Iran internal consumption have been met. This rate to be reached as rapidly as tankers can be made available and the refinery brought to full operation.

(c) Purchasing org will receive all products of the Abadan refinery, less up to one mil tons required for Iran internal consumption. Oil products produced by Abadan refinery for IranGov will be at costs plus reasonable profit.

(d) Purchasing org will sell oil and products, in the first instance, proportionately to old customers of AIOC.

(e) NIOC may market directly crude oil produced in excess of that sold to the purchasing org for the refinery and export. Such direct sales to other customers will, however, be at prices which wld not be prejudicial to the long-term contracts with the purchasing org.

III. Prices

(a) Purchasing org must be able to buy both crude oil and refined products at prices sufficiently low to enable it to compete successfully in world oil trade and to assure that Iran remains competitive with alternative sources of supply. Taking into account all factors involved in determining a fair price under the present world pricing situation, the Iran and Brit Govts, with assistance of reps of the US, will agree upon the amount for which crude oil will be sold by the NIOC to the purchasing org for export and the refinery. The parties will agree upon a formula for equitable price adjustments at frequent intervals on the basis of changes in world oil prices.

(b) Payments to NIOC for crude oil will be in sterling.

(c) NIOC will bear the cost of production of crude oil including delivery to refinery or tidewater.

(d) NIOC will decide what proportion of the proceeds of sales will, in addition to expenditures under normal cost figures for maintenance of existing facilities, be invested to expand production of crude oil.

(e) All refined products for export will be turned over by the refinery company to the purchasing org under arrangements to be worked out by the new owner and the purchasing org.

(f) It is recognized that Brit interests are entitled to compensation for the oil producing and other non-refinery facilities, and that claims and counter claims have been made by both Brit and Irans. In consideration of agreement between the two parties upon a new basis for conducting the Iran oil industry, for ownership and operation of the Abadan refinery, and for the sale and marketing of Iran oil, the claims and counter claims of the parties with respect to compensation will by mutual agreement be cancelled.

IV. Other Provisions

(a) IranGov will agree that taxes against the refinery will not be increased during the term of the contract, and that no additional requirements not now envisaged in the agreement and which wld have the effect of altering arbitrarily the agreement as conceived, will be imposed.

(b) IranGov will undertake not to nationalize the refinery for the term of the agreement.

(c) Immed upon formal acceptance by two parties of foregoing as basis for negot agreement, AIOC will commence shipments of oil and products now available at Abadan, prices to be those established under formula proposed herein. In order to alleviate current finan problems of IranGov, AIOC will immed make advance payment of 5 mil pounds to IranGov for oil to be purchased. *End Suggested Basis for Settlement.*

12. While not specified in "Suggested Basis for Settlement," fol wld be understood by both parties:

(a) "Non-Brit fon concern" in para I (b) wld be Dutch, although this not stated since discussions presumably will not have taken place between Brit and Dutch interests at time plan is agreed to by Iran and UK.

(b) With ref para I (c), costs relating to operating refinery must in Iran view include expenditures for construction additional housing for workers.

(c) While price for crude oil is not mentioned in Suggested Basis for Settlement great importance is attached to understanding by both parties that this wld under present circumstances be sterling equivalent of about $1.10 per barrel. Figure is omitted as inappropriate to be specified in US suggestion.

13. It is hoped that BritGov will give this matter most urgent consideration and inform us at earliest possible moment as to its reactions and view as to whether negot with IranGov might be conducted on foregoing basis. In this connection while it may be possible to make some modifications in the plan to meet any particular pts which Brit might have, we are not hopeful that major concessions beyond those indicated can be obtained from Iran.

14. It is proposed that if Brit advise us that plan wld be acceptable as principles under which negots can be resumed, we wld then seek Dr. Mosadeq's tentative approval. He wld not be told of Brit concurrence, however, until after he has indicated his own approval. If he likewise approves (he may have to first seek authority from Tehran) and is prepared to accept a price figure agreeable to Brit, it is suggested that plan set forth in para 11 above be initialed simultaneously by Dr. Mosadeq and Brit Amb in Wash after which it is earnestly hoped that Brit negotiating mission will be sent to Wash within very few days to obtain agreement on practical steps required to carry out plan. We feel Brit will agree that negots in

country other than Iran or UK wld be most advantageous. Dr. Mosadeq has indicated that he wld be prepared to stay here for such negots provided they can take place in immed future. He is accompanied by large staff including officials needed by him to conduct negots.[3]

We believe that, provided price question can be worked out on some reasonable basis, present time offers best opportunity for settlement before situation has deteriorated beyond recovery. We believe it very much in Brit interest, and in interest entire free world, not to lose this opportunity as another may not present itself.

Brit shld understand that while we are reasonably optimistic re chances of Irans accepting other features of plan we are less optimistic re chance they will agree to price for crude oil sales outlined in para 9. At this time there is substantial gulf between minimum indicated by Irans and maximum which we believe feasible. We are hopeful that they will come down, however, and our suggested solution is based on the assumption that they will do so.

You shld make it clear, in explaining details of proposal, that USGov does not wish Amer firms to serve either as consultants to NIOC or as operators of Abadan refinery. Moreover, it is our earnest desire that to fullest practicable extent technicians employed by NIOC or refinery be non-Amer, altho we wld be willing to assist in any practical way in assuring that operations are carried out efficiently.

You shld also emphasize extreme secrecy of this entire matter and fact that suggestions put forward above must be considered as suggested US proposals and not as plan agreed to by Mosadeq. It is earnestly hoped that there will be no leaks to press on any aspect of this proposal.[4]

WEBB

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[3] At this point in the source text the following sentence was deleted before transmission: "In discussing foregoing with BritGov you shld emphasize that US wld be gravely concerned over consequences of failure to agree to settlement of dispute before PriMin Mossadegh returns to Iran."

[4] The substance of this telegram was conveyed to the Foreign Office on Oct. 30, but no reply was immediately forthcoming. On Nov. 2 and 3, Harriman and Linder, who were on their way to Paris, stopped in London for discussions with the British who at that time indicated that they had a number of reservations about the proposals. Gifford also reported on Nov. 3 that the British would need to place the matter before the Cabinet before a final decision could be made, but would not feel justified in asking the United States to persuade Mosadeq to remain in Washington with a view to negotiating on the basis of the U.S. proposals. (Telegrams 2109, 2178, 2179, and 2181 from London, Oct. 31-Nov. 3; 888.2553/10-3151 through 11-351)

No. 120

Conference files, lot 59 D 95, CF 96

Memorandum of Conversation, by the Secretary of State[1]

SECRET

PARIS, November 4, 1951.

Subject: Iranian Oil Situation

Participants: Mr. Eden
British Ambassador to France, Sir Oliver Harvey
Secretary Acheson
Ambassador Bruce

At this point, I raised the question of the proposed solution of the Iranian oil problem.

Mr. Eden's view was that the proposal[2] was totally unacceptable to the British Government, that the matter was being considered today in a Cabinet meeting, and that probably we were going to be told that they were not going to accept it.

At the outset of the discussion on Iran, I said the fundamental trouble between the US and UK Governments came from different appraisals of the facts from different reporting. I had tried to establish with Mr. Morrison the principle that our Ambassadors would exchange views, if possible, coordinate their views, and, if they could not coordinate their views, copies of their reports would be available to the two foreign offices. I said that, although Mr. Morrison had appeared to agree with this, it had never occurred. I asked Mr. Eden if he would issue instructions that it would now occur. Mr. Eden said that he would do so at once. On my expressing some skepticism about this, he said that it *would* occur. I think it is most important, therefore, that Ambassador Henderson should be requested to confer with Mr. Middleton and be prepared to repeat his reporting telegrams to us to Ambassador Gifford for transmission to the British Foreign Office.

At the conclusion of our discussion of this subject, the question of the time factor arose. I said that I thought this should be divided into two aspects.

The first one was the importance of our being informed at the earliest opportunity—I thought that meant during the current week—as to whether the British Government would or would not enter into discussions along lines that we were proposing. If their attitude should be adamant against any such proposal, we should know it immediately. Otherwise, our position with Mossadeq would be impossible. Mr. Eden said that this was a very fair statement, and I believe that he will carry this out.

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[1] This conversation took place on the night of Nov. 4. For another account of this and the following discussions on Iran in Paris, see Anthony Eden, *The Memoirs of Anthony Eden: Full Circle* (Boston, 1960), pp. 217-225. Regarding the activities of Secretary Acheson in Paris and Rome during November, see the editorial note in *Foreign Relations*, 1951, vol. III, Part 1, p. 1312, concerning the meetings of the three Western Foreign Ministers.

[2] Transmitted in telegram 2256, *supra*.

The second aspect of time was that within which an agreement with Mossadeq might be reached on the supposition that the British were prepared to negotiate. I said that I thought this meant that, provided we were told that we could encourage Mr. Mossadeq during the current week, we might have another ten days or two weeks to work out the troublesome problems.

On the merits of the question, it was clear that the final judgment depended upon different evaluations of the situation.

Mr. Eden stated that our view was that the only alternative to Mossadeq was Communism, which he did not believe to be the fact. He thought that things took a long time to happen in Persia and that, if Mossadeq fell, there was a real possibility that a more amenable Government might follow.

I said that I thought that the analysis had to be much more specific. If we assumed that all negotiations were halted, that the US supported the British completely, gave no support to Iran; that together we prevented any sale of Iranian oil, the resulting situation might be a collapse of the army and the *gendarmerie*, general assassinations by the Moslem brotherhood, and a rapid movement toward the Tudeh Party's taking over.

Second, I thought the US Government would find it very difficult to take this position. If we gave some support to the Government and if the Government was able to sell some oil, it was quite possible that disintegration could be prevented. Great friction could then arise between the British and ourselves and very great trouble could arise to our whole oil position in the Middle East. I did not believe that Mr. Eden could rely upon our sitting tight, laying off the Iranians unless the Iranians themselves rejected a proposal which was in our judgment eminently reasonable.

When we discussed the details of the proposal, Mr. Eden centered on two points—the elimination of the British company and technicians and price, which he thought would upset all foreign oil concessions in the Middle East.

On the first point, I told him that I thought it was fundamental to any settlement that the Anglo-Iranian Company or any British company could not be permitted in Iran. So far as individuals were concerned, I thought that was capable of negotiation. On his point that this was an impossible position for him to present to Parliament, I thought this might be dealt with in such a way that it was not an exclusion of the British, but a change of legal ownership and a retention by Great Britain of the major elements of British interest; i.e., control, distribution, etc., of the oil.

On price, he thought that we were destroying the 50-50 arrangements. It soon developed that he had no knowledge of this situation.

The only alternative which Mr. Eden proposed at any time in our discussions was that Mossadeq should be allowed to go back to Iran with no agreement and that this might have a healthy effect upon producing a more favorable offer from him or some other government. I said that such a view filled us with the greatest apprehension and urged that we have further talks before the British came to such a conclusion. Our conclusion was that he would ask Lord Leathers and the Chancellor of the Exchequer to come to Paris to go into this whole matter with Mr. Linder and me before the British Cabinet reached a final conclusion. I said that I would be glad to meet with them at their convenience.

At one point in the discussion, I said that if we were authorized by the British to make a proposal on a fair price, which was rejected by the Iranians, we then agreed with the British that we should break off and let Mr. Mossadeq go home.[3]

DEAN ACHESON

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[3] Secretary Acheson reported on this conversation in Actel 4 from Paris Nov. 4. (888.2553/11-551) The same day Webb took a copy of Actel 4 to President Truman, who expressed concern that the British did not appear ready to take the action which the United States believed was necessary. (Memorandum of a meeting with the President, Nov. 5; 888.2553/11-551) According to Eden's report to the Foreign Office, Secretary Acheson told the British Foreign Secretary about the U.S. concern that Iranian oil might fall into Soviet hands, repeated that the United States could not let Iran collapse, and stated that it would have to lend Iran money if no agreement were reached on oil. (British telegram 457 from Paris, Nov. 5; Tehran Embassy files, lot 59 F 17, 350 Iran)

No. 121

888.2553/11-551: Telegram

The Acting Secretary of State to the Secretary of State, at Paris[1]

TOP SECRET
PRIORITY

WASHINGTON, November 5, 1951—8:12 p. m.

2704. For the Secy (eyes only Secy, Harriman, Linder). Dept believes position you took with Eden on Iran matter was excellent and hopeful it will have desired effect. We are most concerned re

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[1] Drafted by Ferguson and Rountree; cleared by Bonbright, Matthews, and McGhee; and repeated to Tehran and London, eyes only for the Ambassador.

Brit attitude and even if we so desire expect difficulty persuading Mosadeq to remain here for longer than few days. Fol is Dept comment for such use as you care to make of it in further talks with Brit:

1. While we most anxious not lose opportunity presented by Mosadeq's presence here to find solution, he is of course head of Govt and internal situation in Iran totally aside from oil dispute such as to make his return essential in very near future. Understand he has given orders from here today authorizing declaration of martial law in city of Tehran in wake recent Commie disorders. It is clear that he cannot remain away from Tehran much longer and we wld be assuming grave responsibilities shld we persuade him to do so.[2]

2. We are also concerned at charge of bad faith which Irans might make against us as result our persuading Mosadeq remain here if Brit eventually refuse negotiate with him. Mosadeq is now in negotiating mood and has told us he will stay here as long as we tell him there is "hope". We trust therefore that Brit Cabinet decision may be made known immed.

3. US proposal is not hard and fast matter and permits latitude for negot. Question of exclusion of Brit technicians as opposed to company, for instance, is not contained in proposal but was an attempt to interpret his attitude which you will recall Mosadeq expressed at mtg with you.[3] Important thing is for us to know in what respects proposals unacceptable to Brit so that we can, if we consider Brit position reasonable and it possible to do so, attempt to obtain modification of Iran position. Substantial delays by Brit in formulating position on proposals or outright rejection without demonstrably good reasons therefore will certainly be interpreted by Mosadeq and in fact by all Irans as evidence Brit policy of refusing to negot with Mosadeq while continuing pressures sufficient to cause his fall and appt Govt more amenable Brit position. This we fear will have opposite effect to that Brit might anticipate, and that Mosadeq's polit position wld be strengthened, anti-Brit sentiment increased, and present Govt forced to take drastic course which wld seriously jeopardize Western interests. We cannot guarantee that Brit tactics wld not succeed, but in our considered judgment it is probable that they wld fail and the risk is too great to take.

4. In this connection, while we do not exclude possibility Mosadeq may fall, we do not see how any IranGov whether "reasonable" or not cld conclude any agreement which wld restore Brit operation of Iran oil industry. Mosadeq, furthermore, back in Majlis

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[2] McGhee had seen Mosadeq during the day on Nov. 5 and indicated to him that while the initial reactions of the British were negative, he was awaiting a definitive reply to the U.S. proposal. Mosadeq told him that he was concerned about the situation in Iran, believed that the top Iranian Communist leaders were in the pay of the AIOC, and felt that the British were delaying in order to put economic pressure on Iran and make it more compliant. (Memorandum of conversation, Nov. 5; 888.2553/11-551)

[3] Secretary Acheson met with Mosadeq on Oct. 24; a memorandum of the conversation is in file 888.2553/10-2451.

wld be possibly even stronger force than he is as PriMin and wld be able to dictate legis as he did during short-lived Ala Cabinet last spring.

5. In event Brit refuse to discuss seriously or reject proposals US will be confronted with fol difficult problems:

> (a) US has up to now attempted to persuade US firms which have indicated interest in participating operations Iran oil industry or purchasing Iran oil not to negotiate with Iran Govt during efforts to bring about UK-Iran agreement. As you inferred to Eden, however, continuation this policy may be difficult.
>
> (b) In event breakdown of US efforts Mosadeq wld undoubtedly claim that he endeavored in good will to bring about negots but that Brit refused to consider proposals made by US Govt. Question wld arise as to what we wld say to Mosadeq and to press in explanation that wld minimize reaction against UK and at same time protect US position in matter vis-à-vis Iran and rest of world.

6. Henderson has been requested take immed action with Brit Chargé on joint appraisal, but we hope UK will not delay decision on our proposal pending receipt of this report. Henderson is also being asked as matter of urgency to give appraisal, from standpoint of effect on satisfactory settlement of oil dispute, of political situation which would result from refusal of Brit to negotiate with Mosadeq while economic pressures continue.[4]

WEBB

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[4] On Nov. 6, the U.S. Delegation cabled that Secretary Acheson and Linder had seen Eden and had indicated "very strongly" the concern of the United States "that through inaction their part decision might be made". Eden replied that he had no desire "to fade out of the negotiations" and indicated that Fergusson and Rowan would arrive on Nov. 7 with a full statement of the British position, presumably approved by the Cabinet. (Telegram 2694 from Paris; 888.2553/11-651)

No. 122

888.2553/11-651: Telegram

The Ambassador in Iran (Henderson) to the Secretary of State, at Paris[1]

SECRET NIACT TEHRAN, November 6, 1951—9 p. m.

23. Fol is joint appraisal of certain aspects of Iran situation today, prepared by US and UK Embs.[2]

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[1] Repeated to the Department and London; the source text is the copy repeated to the Department as telegram 1708.

[2] A more detailed and extensive appraisal of the Iranian situation was transmitted on Nov. 20 in telegram 1869. (888.2553/11-2051)

1. We assume that the immediate, usual and overriding US-UK objective in Iran is to prevent that country from falling into Communist hands.

Comment: If our assumption is correct, the pursuit of this objective shld be the main effort by US and UK Govt in Iran. It shld appear that attempts to maintain fon prestige and commercial interest, such as risking of profits from the Iran oil industry or maintaining 50–50 profit-sharing level in international oil concessions, might jeopardize the long term attainment of this main US-UK objective; such commercial interest wld, therefore, be secondary. It must be remembered that new element has been inserted in the Middle East situation. Sov propaganda and Communist organizations are seeking to capture the leadership of nationalist movements.

2. If the main US-UK objective is to be achieved it is essential that there shld be an honest and efficient govt in Iran with positive program of reform which wld weaken the appeal of Tudeh.

3. Such govt must have funds; and the best source of income is from the country's vast oil resources.

Comment: The total income to the Iran Govt from the oil industry, under the recent AIOC arrangement, was over 40 percent of the total govt budgetary revenues.

4. We believe that an oil concession, similar in concept to the 1933 AIOC agreement, cannot endure in Iran.

Comment: Iran nationalism is recognized as force with which any govt will have to contend. We consider it impossible in the face of this force to eliminate from Iran the concept of nationalization or for any fon company to operate an oil concession in Iran.

5. It may be possible for fon agent to run the Abadan oil refinery for management fee without arousing any great nationalist antagonism. If this agent shld be of US or UK nationality it wld encounter great difficulties owing to admittedly irrational Iran suspicions and antagonisms. (In the US Emb view, these difficulties wld be almost insurmountable.) The Brit Emb is not convinced that Brit operating organization wld necessarily fail to win Iran acquiescence.

Comment: The emotional side of Iran nationalism will continue to represent an opportunity for extremist elements to win political strength. These emotions can be controlled, to some extent, by firm govt, since, in main, Irans respect forceful authority and may be expected to support efforts to run their oil industry. However, any agreement which allows any fon agent seemingly to disregard the basic concept of oil nationalization will be most precarious and will render any Iran Govt which recognizes its validity dangerously and continuously vulnerable to nationalist agitation. It is unnecessary to emphasize that no agreement with Iran can be expected to last unless it provides solid basis for mutual self-interest and goodwill.

6. Both the US and UK Govts have financial interests which must receive serious consideration in any discussions of the oil dispute with Iran.

Comment: Iran oil is vital factor in the Brit balance of payments. Its loss wld weaken the whole sterling position and might well affect the Brit rearmament effort. To this extent it is also matter of concern to the US. US taxpayers might find themselves compelled to replace Brit exchange losses and at the same time to pump money into Iran to replace the loss of oil revenues.

7. *Conclusion:* We realize the material stake which both the US and UK have in reaching practicable oil agreement with Iran (Para 6). Our basic assumed strategic objective (1) can, however, be attained by an arrangement which wld keep the Iran oil industry operative, bringing revenue to the Iran Govt and sterling oil products to the West, even at possible expense of secondary objectives [3]

HENDERSON

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[3] On Nov. 7 Henderson reported that he and Middleton and their staffs had been discussing Iran and that his impression was that they both saw things in the same light subject to two differences. The British believed that Iranian nationalism was artifically stimulated rather than deep-seated; and they also believed there was a strong possibility that the Majlis or the Shah would oust Mosadeq if he returned from Washington without an agreement, while Henderson felt that Mosadeq would survive and might turn to the Communists for support. (Telegram 1730; 888.2553/11-751)

No. 123

888.2553/11-751: Telegram

The Ambassador in Iran (Henderson) to the Secretary of State, at Paris[1]

SECRET NIACT TEHRAN, November 7, 1951—noon.

24. (1) Fol tel is in response to suggestions from Dept we tel our views re polit repercussions in Iran if Mosadeq shld return without agrmt. Brit Emb has been informed its contents.

(2) If Mosadeq shld return from US without agrmt or making any progress which might promise agrmt, and if it wld be impression failure was due to Brit unwillingness negot except on terms which wld result in reestablishment Brit co in Iran, indignation and anger against Brit wld in our opinion reach new heights. Unfair as it might seem, Iranian public in gen wld interpret absence agrmt as additional evidence Brit trying to bring Iran to terms thru econ boycott or pressure. Unless US by word and deed wld indicate that despite lack agrmt it intended extend appreciable finan and econ aid to Iran, there wld be strengthening of already widely prevalent belief it was cooperating with UK in maintaining econ and tech blockade. Since UK wld not look kindly on extension any aid to Iran which wld assist latter in overcoming finan difficul-

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[1] Transmitted in two sections and repeated to the Department and London; the source text is the copy transmitted to the Department as telegram 1710.

ties arising from absence oil revenues, US might find itself compelled to choose between deeply offending Brit or forfeiting such remnants of friendliness as still exist in Iran from great reservoir good will we possessed some five years ago. Such choice not easy since on one hand friendly Brit-US cooperation essential particularly in ME and on other deep-seated hostility towards US on part Iran wld promote success of those who want country to fall under Russian domination. It might take years patient effort to win back Iranian confidence in US and during those years much cld happen.

(3) If Mosadeq returns without agrmt or some kind of assurance Iran wld be able obtain funds from US to meet budgetary and foreign exchange needs, he will be subj considerable criticism for failure his policy. During his absence his opponents have gathered certain amount courage and have again become somewhat articulate. With his political skill and demagoguery, Mosadeq wld probably be able, however, to suppress such a position as might exist in Majlis unless (a) shld be deserted by some his nationalistic and leftist supporters or (b) US and UK Embs as well as Shah shld intervene by carrying on energetic campaign against him. He might, however, even in face foreign and royal intervention be able squelch opposition in Majlis by threats of violence or by actual violence. We doubt that he will resign voluntarily at time when resignation wld be construed as admission failure. More probably he will stay on unless Shah . . . decides to take difficult task of removing him and succeeds in doing so. Unless Mosadeq resigns or is removed immed after return, it may become almost impossible dislodge him. He will so rig elections which are taking place very soon (all elections are rigged to considerable extent in Iran) as to eliminate his most dangerous Majlis opponents and to form alliance with kindred nationalist elements and with Tudeh.

(4) Even replacement of Mosadeq by Prime Minister more friendly towards Brit at this time will not solve oil prob. New Prime Minister wld not dare take position which wld tend confirm charges certain to be made against him he merely another Brit stooge. He wld be compelled therefore lean over backward in dealing with oil prob. We do not see how any Prime Minister in near future cld conclude oil agrmt which wld enable Brit oil co to return to Iran. Even if such agrmt shld be concluded and forced through Majlis, activities of co wld be under such heavy polit attack that its activities wld be hampered. So long as it continued to operate, it wld be target for Commie and anti-West propaganda. We do not believe it cld last very long.

(5) We do not wish be alarmist in outlining what eventual consequences might be if no agrmt reached with Brit and no aid coming from US to replace absence oil revenues. Altho Iran as agric coun-

try has considerable econ resilience it has little finan flexibility. 80 percent its budget is composed of salaries, pensions, etc. When money runs out in four or five months govt will not be able pay armed forces, police, or civ personnel. In our opinion, Iran natl feelings being as they are, public more likely turn toward communism than to insist on what it wld consider as submission to western econ imperialism. It is quite possible Iran wld fall victim to internatl communism without any overt intervention on part Russia.

(6) Not believed nec here stress effect on free world loss of Iran. Internatl Communists with their experience and tactics shld find little difficulty in exterminating some 5 to 15 percent population which might oppose program and in organizing remainder as agric, industrial and mil serfs, process cld be much faster than in more advanced countries eastern Eur.

In comparatively short time strong and relatively eff Iran army cld be organized eager to engage in adventures in ME. Altho army wld not be first class it wld render def ME extremely difficult. Mere existence militarily strong Commie Iran wld have disruptive and demoralizing influence in this whole area.

(7) In our opinion stakes so high US and UK cannot afford to take chances by haggling too much over questions of profit making, 50-50 basis oil concessions, local prestige, etc. If new Brit Govt wld enter negots at once in spirit genuine goodwill prepared to make wide concessions and with full understanding no Brit firm at least in near future, again to operate in Iran oil industry, and if it should be able come to agrmt on generous basis, in our opinion Brit prestige in Iran wld soar rather than suffer, and friends of West wld again be able come to fore. US and Brit might then coop in relief prog and might even be able convert Iran with all its weaknesses into free world bastion of respectable strength. Altho latter goal might not be fully attained US and UK might at least be able to retain position in Iran which wld facilitate their def other countries ME.

(8) If in spite Brit willingness negot on generous basis including no return Brit companies to Iran soil and if Mosadeq shld still refuse come to agrmt, it is believed that it wld be much easier for patriots and friends of West in Iran to coalesce in bringing about his removal and installing a govt which wld be prepared to come to understanding with Brit.

(9) In case no agrmt reached between UK and Iran US might be able thru finan measures help keep Iran econ and pol alive for considerable period. Unless however Iran's revenues from oil can be appreciably restored, country's econ dependence on US will be so complete that morale will suffer and resentment against West incl US for keeping it in what it will consider as pauper status will be

sure grow. In fact we believe Iran pride wld not permit it to continue to depend on US charity for its existence over protracted period.

HENDERSON

No. 124

888.2553/11-751: Telegram

The Secretary of State to the Department of State

TOP SECRET NIACT PARIS, November 7, 1951—midnight.

Actel 8. Eyes only Matthews, Nitze, McGhee. For McGhee, Nitze from Linder. Meeting at British residence attended by Eden, Flett, Rowan, Fergusson, Acheson, Harriman, Gifford, Perkins, Linder.

1. Fergusson led off with statement fair compensation must be obtained in order protect their assets in other areas. Iranian counter claims without merit and if admitted would have serious repercussions other places. However, compensation might be waived on a clear and demonstrable 50–50 arrangement and an assured supply of oil. Their opinion neither is met.

2. AIOC unwilling buy oil on a cost plus basis since refiner would have no incentive control costs and would be under constant pressure increase expenditures for amenities.

3. They object in principle to a fixed price rather than profit sharing but would accept former if free oil were provided as compensation.

4. Stated Dutch would be unwilling to run refinery because (a) they would require some measure control over crude production to insure that suitable types of crude produced, (b) there are not sufficient technicians when US and UK nationals are excluded, (c) neutrals on board give no assurance since they would be appointed by Iran.

5. Rowan followed referring to crisis in UK and Chancellor stand fight inflation internally. Measures announced today represent only a beginning. If UK is weak in respect Iran all confidence will be lost and effect on their invisible earnings will be catastrophic. Oil is important but their position in the Middle East is vital. In Iran they are faced with a finite loss to which they can reconcile themselves but to make a bad agreement (which you by now have gathered they think our proposal is) would expose them to an incalculable risk. His specific points were:

a. Effect in other places of exclusion of Britishers.
b. No compensation which can be waived only if clear and demonstrable 50–50 arrangement.
c. No assurance that oil will be produced.

d. No commitment by Mosadeq.

e. It would be very harmful to their prestige with other governments if it were known that UK would even consider negotiations on such a basis.

f. Finally that there still is considerable divergence in our political appraisals.

6. There followed a lengthy and fruitless discussion as to whether our proposal did in fact deviate substantially from the 50-50.

7. Eden then made his proposal that we should urge US companies to join them, in order to work out a joint Anglo-Amer deal with Iran. He stated that we were partners in the whole of the ME and this should be no exception. His analysis of the situation had persuaded him that the Iranians had succeeded in driving a wedge between us and in playing us off against each other.

Secretary replied that the real wedge was our differing political appraisal of the situation. Naturally we would give most serious consideration to their proposal but warned that there were gravest dangers inherent in it. He feared violent adverse public reaction in UK Moreover, he thought the Iranians would also believe they had been tricked by us. It was agreed by Eden that were we to consider this favorably they would of course extend the invitation to which the Secretary added the Iranians would have to do likewise.

Eden again stated we were partners in the entire ME and of course it would just be too bad if we supported Mosadeq. He added that Churchill very much liked the idea that we should join them.

As indicative of their attitude at this point, Fergusson remarked that only the Brit and Amers could make it possible for Mosadeq to obtain the fruits of his oil. There was no indication that any weight whatever had been given to the joint appraisal from Tehran.[1]

The conclusion which appears inescapable is that while they have endeavored to rationalize their rejection of our proposal, even had we been able to close at a price appreciably below $1.10 (which of course we are far from having in hand) they would be disinclined to meet our time limits and probably would continue to endeavor to avoid negotiation. We believe they are perfectly prepared to continue to take all the risks of doing nothing—having in mind the possibility, no matter how remote, of drawing us in. Nor should one omit from consideration the difficult political situation in which the new government would find itself when having attacked the weakness of the old, it makes under this Prime Minister an arrangement which may be interpreted as more appeasement. Either one discounts completely their sincerity or one must accept the strong indication which we have had that they really believe that to yield in Iran is to write vitally important chapter in the decline of the UK.

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[1] Presumably that transmitted in Document 122.

The Secretary has read this cable and concurs in the report.

Acheson

No. 125

888.2553/11-751: Telegram

The Acting Secretary of State to the Secretary of State, at Paris[1]

TOP SECRET WASHINGTON, November 8, 1951—1:12 p. m.

Telac 13. For the Secretary (eyes only Sec, Harriman, Linder). Fol are Dept's flash reactions to Actel 8[2] and present Iran situation:

(1) Altho Dept will await final word from Sec, which is expected before 5:00 p. m. Washington time, as to whether or not Mosadeq shld be encouraged to stay in Washington longer, it is assumed answer will be negative. In that case Dept wld recommend advising Dr. Mosadeq that conversations with Brit similar to those conducted with him have failed to reveal sufficient area of agreement which wld result in an understanding being reached during short time he cld remain in Washington. We therefore cannot urge him to delay his return to Iran. He has indicated that unless we ask him to stay he will announce tonight his departure on the 15th. We wld seek to avoid any expression of blame for breakdown of negots, pointing out that problems remaining seem to be management of the industry in Iran, compensation to Brit interests, and price of oil. We wld discreetly point out that his own positions in the matter have contributed to failure to reach agreement.

(2) Dept concurs with your reaction to Brit suggestion of participation by American companies which from standpoint of ownership it is assumed wld be limited to refinery altho it cld include participation as consultants to NIOC in remaining oil operation. For reasons that the Sec stated, we believe this suggestion shld not in any way be linked to our present initiative, but that we shld give consideration to it only after being invited to do so by both Brit and Irans. In addition to adverse political reaction in UK and Iran, we doubt that participation by US companies wld make Brit companies any more palatable to Iran, and indeed might be construed

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[1] Drafted by McGhee and cleared by the Executive Secretariat, the Policy Planning Staff, the Office of the Deputy Under Secretary, and the Bureau of European Affairs.

[2] *Supra.*

mere device to reimpose Brit company on Iran. Believe US companies wld be disinclined to enter such difficult and complicated picture when they have access to adequate oil reserves elsewhere.

(3) Dept reaction is against any suggestion that US companies purchase oil on interim basis from Iran in absence of agreement with Brit. It is felt such action wld constitute only temporary palliative to Iran situation, which wld not be worth the afront to Brit public opinion and weakening of Brit position which wld be involved. It wld in addition constitute our sanction of purchases under conditions which we wld, in the absence of a new agreement, call confiscation as a result of unilateral Iran action. Moreover it not clear that difficult legal question re ownership of oil wld not be pressed by AIOC.

(4) Dept is acutely aware, however, of grave consequences of the US neither (1) using full weight of its position vis-à-vis Brit to get them to agree to proposal which we consider reasonable and which from purely financial point of view is as good as they may ever get even though it does not meet Brit prestige and internal political problems; nor (2) taking direct steps to help Iran avert imminent collapse of its economy. If it becomes clear that Brit do not wish to negotiate with Mosadeq under any reasonable conditions problem is accentuated by fact that US Govt has, as is known, taken positive steps to prevent certain American oil interests and cooperative organizations from negotiating with Iran. This connection, public and Congressional reaction to our standing aside and risking the loss or dismemberment of Iran shld be carefully weighed.

(5) Preliminary Dept views are that US shld as minimum advise Brit that if they do not proceed with negots US Govt may be compelled render such economic assistance as it has at its disposal, including economic and military aid under the MSP and Ex-Im Bank loans, to assist Iran even in absence of solution to oil problem. This connection, Irans have requested permission to talk to Ex-Im Bank. In addition they will, when breakdown of talks is revealed to them, request short term economic assistance to prevent collapse. Dept wld appreciate expression of Sec's opinion as to whether or not consideration shld be given to Ex-Im Bank loan or short term financial assistance. In meantime our position of keeping Ex-Im Bank loan open but "dragging our feet" on its implementation will be maintained.

WEBB

No. 126

888.2553/11-951

Memorandum of Conversation, by Colonel Vernon Walters[1]

SECRET WASHINGTON, November 9, 1951.

Present:
Prime Minister Mossadegh
Assistant Secretary McGhee
Mr. Paul Nitze
Lt. Col. Walters

Mr. McGhee opened the conversation by stating that he understood Dr. Mossadegh had been very busy. He had seen Col. Walters 4 times that day.[2] Mr. McGhee then asked whether Dr. Mossadegh had talked to Mr. Gaston of the Export-Import Bank.[3] Dr. Mossadegh said that he had and indicated that the interview had been a satisfactory one. He said that he was having the competent persons from his group contact Mr. Gaston on Tuesday.

Mr. McGhee then indicated that we had been sounding out the British simultaneous with the Iranians to see whether we could arrive at a basis for making concrete proposals. These soundings had indicated that the positions of the two parties were so far apart that we did not think that, in the limited time the Prime Minister could stay in Washington, it would be possible to close the gap between them. Mr. McGhee said that we regretted our inability to close this gap, but that it arose from his position on several points. The British regarded his refusal to accept British technicians now as a retrograde step from his previous position of willingness to accept them. On the question of price, there were also difficulties. We did not feel that we could recommend a price which we knew would not make the oil competitive. Likewise, on administrative arrangements and British participation, there was a great deal of difference between his position and that of the British. The matter of compensation to be worked out properly, likewise would require a great deal of negotiation. We were sorry to lose the opportunity of being able to talk to him personally here, but we felt that, at the present juncture with his position being what it was, we did not feel it was sufficient to bridge the gap to the British position.

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[1] The meeting took place at 6:30 p. m. on Nov. 8 at the Shoreham Hotel.

[2] Mosadeq saw Walters alone at 9 and 11:30 a. m., at the meeting with Gaston referred to in footnote 3 below, and at the meeting with McGhee described in this memorandum. Records of the first two meetings with Walters are in file 888.2553/11-851.

[3] Gaston and Mosadeq met on Nov. 9, presumably between the meeting with Walters at 11:30 a. m. and the one with McGhee at 6:30 p. m., and discussed the Export-Import Bank loan to Iran. Gaston told Mosadeq that the Bank wanted an official indication that Iran accepted the loan. (Memorandum of conversation, Nov. 8; 888.2553/11-851)

Dr. Mossadegh replied that he had thought that other matters might be worked out, leaving price for the end, because agreement without price was not an agreement. Likewise, if no agreement were reached on the other matters, there would equally be no agreement. He said that the Iranians had been willing to keep the British technicians until the British had compelled them to expel British technicians. No one in Iran would be willing to have them back. He said that he had tried to be reasonable but that the British did to want to negotiate with him. They wanted time for economic pressures to make themselves felt. This was a grave error on their part. His Government would not be succeeded by a government more amenable to British desires but by a government more amenable to the Soviet Union. Dr. Mossadegh indicated that as far as he was concerned, the breakdown at this point ended possiblity of further negotiations with the British. The people supported him and would never yield to British economic pressures. He said that pressure on his government would never persuade it to change its position. The probabilities were that we would have to do in Iran what we had already done in Korea. Mr. Nitze said that while we were fighting in Korea in defense of freedom, there had been applied to us the pressure of the cutoff of Iranian oil. Dr. Mossadegh said that all we had to do was to come and get the oil, and there would be no cutoff of it. All the Iranians asked was for us to come in and help them run the oil business. Mr. Nitze pointed out that the oil was not needed in the United States, but by the former consumers. The Prime Minister said he had always been willing to furnish the former consumers. He said that he had tried not to be unreasonable, that the petroleum had been nationalized in order to prevent the Russians from getting a foothold in the North.

Mr. McGhee indicated that he did not see any advantage in hashing the thing over and trying to fix blame. Perhaps in the future, Dr. Mossadegh might think of something that would permit re-opening negotiations. After all, the primary responsibility for this lay with the British and the Iranians, as the dispute was between them, but we would always be glad to offer our good offices. The Prime Minister replied that if an agreement had not been reached here, it was because the British did not want one, and there could never be a settlement directly between the British and the Iranians. That is why they had hoped for United States intervention in the matter. He said that the United States Government did not want to irritate the British. This, he could understand, but nevertheless, he felt that world peace should take priority over this feeling, and world peace was endangered by the situation in Iran.

Dr. Mossadegh said that it was his duty to take every step he could and make every effort in the critical situation in which his country found itself. On the following day, he would write the President a letter asking for help. He recalled the President's expressed desire to see Iran's independence maintained. This could be done in one of two ways, either by achieving a settlement, or by helping Iran temporarily. In his letter, he would ask the President to help Iran by an advance—not a gift—to meet current operating expenses of the government. Mr. McGhee pointed out that this was rather difficult as Congress was not in session at the present time. Dr. Mossadegh said he would not want to go into the procedure of this matter. The President had certain flexibility in foreign aid funds. He could either accept the Iranian request or refuse it, but for the record and for history and his conscience, he must make this appeal, because only in this way could the President's expressed desire for the preservation of Iran's independence be achieved. Mr. McGhee asked whether the Prime Minister had any idea of the amount or wished to discuss the question. The Prime Minister said that he was thinking in terms of $10 million a month, or $120 million for one year. He was not asking for a grant; it was a loan which he intended to repay and he would guarantee the first revenue from oil in payment of this loan.

Mr. McGhee asked whether this could be done through conversation instead of by letter. The Prime Minister said he must write the letter. He would transmit it through Mr. McGhee. Mr. McGhee then asked if he could see Dr. Mossadegh on the following day. The Prime Minister said he could. He would write the letter and show it to Mr. McGhee on the following day at 5:30 p. m.[4]

The Prime Minister then spoke of the question of lubricants on which he had made a request. He then asked for Mr. McGhee's help in this matter. Mr. McGhee said he would talk to the proper people on the following day.

The Prime Minister then spoke of his intention to draw $8 million from the International Monetary Fund. They had accepted the application and all he wanted was help in speeding the availability of the funds. Mr. McGhee indicated that he was sorry to see Iran withdraw this amount as it was a cushion and symbol of Iran's actual participation in the IMF. He then told the Prime Minister that the new Administrator of the Point IV program in Iran had been sworn in that day. The Prime Minister said he was seeing him the following morning at 10:00 a. m.[5]

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[4] The record of Mosadeq's conversation with McGhee on Nov. 9 does not indicate anything further about this letter being shown to McGhee. A copy of the letter, dated Nov. 9, in which Mosadeq reviewed the Iranian position on the oil dispute since the nationalization law, accused the British of procrastinating on a settlement, and asked President Truman for immediate financial assistance to ease the economic crisis in Iran, is in file 888.2553/11-951. A memorandum of Mosadeq's conversation with McGhee on Nov. 9, which records the details of the Prime Minister's preparations for leaving Washington, is in file 888.2553/11-951.

Mr. McGhee expressed our earnest regret that we would not be able to help in solving this problem. Dr. Mossadegh said he too regretted it, but that if we could help him over the present difficulties, perhaps in two or three months the British would repent and the Iranians would repent and then they might be able to work out something. He said that he was most grateful to the United States and to Mr. McGhee for all they had done to try and help in attaining a solution. The United States had acted in a completely disinterested fashion with its only interest being preservation of peace and security. This he would say publicly and he would likewise say it in writing. He would also tell this to the people in Iran when he returned. He reiterated his gratitude to the United States several times. The Prime Minister then indicated that he would make his speech before the National Press Club on the 13th and leave for Iran on the 15th of November. He hoped that he would have some answer to his letter to the President by then.[6]

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[5] William E. Warne, Point IV Administrator for Iran, talked with Mosadeq on Nov. 9 and indicated that $23 million was available for projects in Iran. Mosadeq showed considerable interest in this and asked that Warne write him a letter informing him that this appropriation had been voted and that the funds were available. (Memorandum of conversation, Nov. 9; 888.2553/11-951)

[6] The substance of this memorandum of conversation was transmitted to Secretary Acheson in Paris in Telac 21, Nov. 9, 7:22 p. m. (888.2553/11-951)

No. 127

888.2553/11-951: Telegram

The Ambassador in France (Bruce) to the Department of State

TOP SECRET PARIS, November 9, 1951—1 a. m.

2743. Eyes only Matthews, Nitze, McGhee, from Linder for McGhee. Fol is entirely informal memorandum handed us by Eden at mtg evening November 8.[1] This was in response to our Secy's request made preceding evening for an outline of their minimum requirements.

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[1] No further record of this meeting has been found in Department of State files.

"The following principles taken as a whole represent in our opinion the minimum requirements which must be satisfied in any settlement of the Persian dispute. We believed that they are fully consistent with the acceptance by His Majesty's Govt of the gen principle of nationalization and that they are in fact the conditions upon which any oil company wld need to be satisfied before undertaking any responsibility for running any part of the Persian oil industry or contracting to buy and market large quantities of Persian oil; and without the cooperation of the oil companies Persia cannot hope to derive any substantial benefit from her oil.

Principle I.

There must be fair compensation for loss caused by the "nationalization" of concessionary rights and properties to be agreed between the two parties or, in default, settled by arbitration.

Justification.

The amount of compensation cannot be settled unilaterally. It must be agreed between the parties, or if agmt is not possible, settled by independent arbitration acceptable to both parties or by the Internatl Court of Justice.

Unless the principle of leaving the question of compensation to be settled by some independent judicial authority is accepted, no Brit (or Amer) interest in foreign countries is safeguarded against breach of contract, and there is no possibility of encouraging foreign investment in backward countries to save them from Communism, which is as much as objective of Amer as it is of Brit policy.

Principle II.

It is not enough when nationalization occurs that there shld be acceptance of the principle of fair compensation. As Mr. Harriman publicly stated, there must also be security for effective means of paying compensation.

Justification.

In the case of Persian oil, compensation can only be paid if their oil industry is maintained at about its present scale and in effect in the form of oil. This requires:—

(i) That there shld be efficient management of the oil fields and refinery and effective coordination between the two;

(ii) That some company having world-wide markets shld be prepared as a commercial proposition to rely over a period of time upon Persian oil instead of other countries oil for supplying those markets.

No company with world-wide markets can possibly afford to commit itself to rely on Persian oil unless the persons responsible for managing the oil fields and refinery are, in the opinion of the company:—

(aa) Properly qualified.

(bb) Guaranteed adequate powers. To ensure that the oil will be forthcoming at the right time in the right quantity and quality and at an econ price.

It is not enough that Persia shld agree to appoint a number or even a majority of neutrals to the board of the Natl Iranian Oil Company. The neutrais or the majority of the board must be people in whom any company running the refinery or committing itself for the marketing of Persian oils (whether crude or refined) have confidence. Such companies must also have confidence that these people will have adequate powers guaranteed to them for the carrying out of their responsibilities.

Principle III.

Persia shld not by reason of her unilateral expropriation AIOC secure, over-all, a more favorable return from her oil than other concessionary govts who have respected their contracts.

Comment.

Subject to the establishment of fair and effective compensation (in the form of free oil) and of efficient management of the Persian Oil Industry (both crude and refined products) on which effective compensation depends, it seems possible to consider a scheme under which Persia secured more than 50 percent of the profits arising out of the remainder of her oil production.

This possibility, however, is a matter on which His Majesty's Govt cld not commit AIOC or any other oil company.

Principle IV.

His Majesty's Govt cannot undertake to negotiate on a basis involving the exclusion of its own nations from any country.

Justification.

Even if we accept the Amer view that it is important to maintain Mosadeq in power and that so long as he is in power AIOC cannot as such operate in Persia, we must at least insist that in practice, as well as in form, neither Brit concerns nor Brit subjs shld be excluded from [the oil industry by the ?] foreigners who will have to help Persia to run its oil industry.

Any other principles will be fatal to any foreign investment in any country, since no company operating anywhere wld have any security whatsoever.

Furthermore, no Brit Govt cld secure the acceptance by Parliament by any other principle."

BRUCE

No. 128

888.2553/11-951: Telegram

The Acting Secretary of State to the Secretary of State, at Paris[1]

TOP SECRET NIACT WASHINGTON, November 9, 1951—9:23 p. m.

2837. Eyes only Secy, Harriman, Perkins, Linder. Fol is Dept's evaluation present Iran situation, together with recommendations. If you concur it is intended that recommendations will be cleared with Secs of Defense and Interior and put to the Pres for his approval.

Present breakdown US endeavor obtain UK-Iran agreement upon basis for settlement oil controversy has produced situation which Dept feels must be faced squarely if major catastrophe in Iran is to be averted. If Mosadeq leaves Wash with no basis of settlement and without proposal to him which might lead to resumption of negots it is believed highly unlikely that any subsequent action cld bring about negots between his Govt and Brit. Mosadeq has himself stated this. Mutual distrust between him and Brit is such that only through US good offices, and possibly in US where Mosadeq is protected from influence of Tehran polit pressures and violence, does any possibility exist.

If Mosadeq shld feel that his last chance of negotiating with Brit has been lost he will, in his Press Club speech scheduled Nov 14 and in other statements both here and in Iran, inevitably launch into strong attacks against Brit. According to our and Henderson's evaluation (Tehran's 1748 of Nov 9 rptd Paris as 37[2]) bitter denunciation of Brit, coupled with his SC victory, will at least for moment increase his popularity in Iran and prolong his ability to stay in power until time when econ collapse is probable or inevitable. Even if Mosadeq shld be replaced by Qavam, whose strength appears to have increased in Mosadeq's absence, it is unlikely that Qavam cld, in face of present anti-Brit sentiment which Mosadeq wld continue to stimulate, make satisfactory oil agreement in short period of time remaining before collapse occurs.

Brit view appears to be that with collapse of Mosadeq Govt there is strong possibility of successor who will make reasonable oil agreement, and that this is sufficient to justify inherent risks of this course which they themselves must recognize. We cannot avoid conclusion that, notwithstanding Brit statements to us that they consider maintenance of Iran independence paramount objective our joint pol in that country, they are prepared to gamble very heavily upon loss of Iran rather than negotiate with Mosadeq. While fully recognizing importance of maintaining highest possible level Brit prestige in ME, and recognizing importance to US-UK relations of rendering to Brit all possible support, we must consider how far we are prepared to go in risking loss of Iran by remaining aloof while Brit continue to pursue tactics which might well lead to catastrophe.

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[1] Drafted by McGhee and Rountree and cleared by Matthews, Bohlen, Nitze, Thorp, and Bonbright.

[2] Not printed.

If IranGov is led to believe that Brit will negotiate only on basis which wld be unacceptable to vast majority of Iran people, no Iran leader cld undertake responsibility for yielding to Brit demands, regardless of econ consequences in country. In absence of outside econ assistance or of possibility of some sales of oil, there wld be only two alternatives: either to face econ collapse and probability takeover by Commies, or to turn to Sov Union and satellites for financial assistance and for help in running oil industry and disposing of its products. Thus, regardless of what IranGov is in power, only ways in which loss of Iran can be averted appear to be (a) agreement with Brit, (b) arrangements for Iran sale of oil in absence of such agreement, or (c) outside econ assistance. If there are no hopes left to IranGov that any of these forthcoming, they might well turn to Sovs in very near future. While we believe Mosadeq anxious avoid such course, and is himself sincere anticommunist, his inherent recklessness might well lead him to do so if alternative appears to him to be capitulation to Brit. We must consider as a matter of urgency course we will take in the attainment of fundamental objective of saving Iran. Of above alternative we wld not wish resort to (b) for reasons stated Deptel 2704 Nov 5.[3] Believe we shld not approve but indeed shld discourage Amer cos purchasing oil which has been acquired by IranGov through unilateral action and the legal status of which is questionable. Purchases by groups not under control of US and UK Govts and cos wld possibly be adequate to assure Irans sufficient income to support IranGov and economy. We are therefore left alternatives of attempting to persuade Brit to negotiate with Iran and/or of ourselves rendering econ assistance to Iran on sufficient scale to permit continued operation of govt and maintenance of economy on minimum basis until oil revenues can be resumed. These are not unrelated alternatives since it is recognized that Brit wld deeply resent our extending assistance which wld have effect of reducing econ pressures now on Iran, and indication that US wld extend such assistance wld have important effect on Brit decision as to whether or not they will resume negots. Moreover, extension of US assistance on scale required wld induce cumulative pressure by Amer public and Congress against Brit to reach agreement with Irans even though all Brit principles mentioned Paris Embtel 2743, Nov 9,[4] may not be achieved.

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[3] Document 121.

On other hand, extension of aid would be used as lever against Iran to assure reasonable attitude re settlement. Since US assistance wld be on month to month basis, it wld provide significant basis for influence over pol of IranGov.

If Brit insist on pursuing their present tactics we do not see how US can sit idly by and run risk of losing Iran, when cost of not more than $10 million per month as proposed by Irans is within our means and is small in comparison with $2 billion which has been expended in pol of containment in Greece and Turkey.

Study of Brit principles in Paris Embtel 2743 reveals no important objective consistent with realities of Iran situation which we believe cannot be achieved in some form or another except return of Brit co to Iran. It is difficult to see how this in itself can be sufficiently important principle to Brit, in light of financial and other benefits to their economy and to world which can accrue from arrangements we believe Irans now prepared to accept, to justify Brit taking risk they seem prepared to take of loss of Iran. Strongly believe this is not sufficiently important objective for us to back Brit in this risky course.

In light foregoing evaluation Dept recommends for ur consideration fol course:

(1) That Sec advise Brit of very great importance which we attach to their resumption of negot with Mosadeq and request that they put forward to us while Mosadeq still in Wash specific counter-proposals which we wld take up with Mosadeq for purpose seeking agreement prior to his departure. For success such counter-proposals must be within realities of Iran situation and it is hoped wld be along general lines of our suggested basis of settlement except for (a) provision for non-discrimination against Brit technicians in Iran; (b) maximum price which Brit believe they cld afford to pay for oil; and (c) creation of UK-US-Dutch firm to operate Abadan refinery. While Brit may be reluctant put specific points as their own counter-proposals, we wld be prepared endeavor to obtain additional concessions from Mosadeq if we were assured that basis of settlement wld then be acceptable to Brit.

(2) That Sec advise Brit that rather than risk economic collapse of Iran and its possible loss to free world, US proposes if it becomes necessary and at appropriate time to go forward with such econ assistance to Iran on temporary basis as is required to assure continued functioning of IranGov, regardless of what govt is in power so long as it is dedicated to continued independence of Iran. Brit wld be assured, however, that such assistance wld, to greatest extent

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[4] Supra.

possible, be used as lever to influence IranGov to assume reasonable attitude re settlement of oil issue. Aid wld be in such quantities as to reduce rather than to relieve consequences of loss of oil revenues.

(3) That Sec advise Brit that US anxious develop and refine full US-UK partnership in ME. Iran is at present only place in area where there is substantial divergence of views between our two govts. While we feel it of paramount importance that settlement with IranGov be reached, we wld be prepared and indeed anxious immed consult with Brit to assure that any such settlement will not be used in other ME countries to exploit situation brought about by exigencies of Iran problem.

(4) That Sec in again urging Brit to make possible resumption of negots with Mosadeq, point out difficulties which wld be involved in their failing to make every conceivable effort to reach settlement. These include such problems as Congressional and public reaction to continuation of supply from US sources of petroleum to meet deficit created by loss of Iran production and extension US financial aid to meet losses imposed upon Brit econ. Realize these factors must be put to Brit most discreetly and in terms which cld not be interpreted as threat.

(5) That Dept immed formulate plans for implementation of such econ assistance to Iran on loan basis to be repaid from oil revenues of IranGov when they have been resumed. Source of such funds, at least initially, might be from $24 million appropriated in MSP for technical and econ assistance to Iran, and additionally from transfers from other programs.

WEBB

No. 129

[illegible] Telegram

The Secretary of State to the Department of State[1]

TOP SECRET NIACT PARIS, November 10, 1951—7 p. m.

2808. Eyes only McGhee, Matthews, Nitze, from Secretary via Linder to McGhee. In the light of my talks with the Brit in Paris, on Iran, I think that the attitude of the present govt in England toward Iran is different from or at any rate clearer than that of its predecessor. It is certainly different from the first assumption of the joint appraisal from Tehran, dated Nov 6,[2] and from some of the statements made in Wash's 2837 of Nov 9.[3] This attitude extends all through the govt from the Prime Minister to the civil servants. It starts from Churchill with the roar of a wounded lion, becomes more articulate with Eden, as he remembers twitting the Laborites for weakness during the campaign, and is fully rationalized by the civil servants, as fols:

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[1] Repeated to London.

[2] Transmitted in Document 122.

[3] *Supra.*

Brit stands on the verge of bankruptcy, as the Chancellor last week told the House. Despite the ravages of wars and post-war periods, Brit still retained important overseas interests and the invisible items in her balance of payments are of overwhelming importance to her. Without them she cannot survive. Mosadeq's seizure of the AIOC properties and concessions were a serious blow. But they were a loss which Brit can stand. Refining capacity can be built elsewhere. Iranian oil is not essential, and, with firm support from her friends, Brit can recover from this blow.

But Brit cannot recover from the course of action which wld destroy the last vestige of confidence in Brit power and in the pound. If it shld be believed abroad that Brit wld acquiesce in the despoliation of Iran and even cooperate to make that despoliation profitable to the Iranians, she wld have no properties left within a few months—and, indeed the same wld happen to all Western investments.

Therefore, in my judgment, the cardinal purpose of Brit policy is not to prevent Iran from going Commie; the cardinal point is to preserve what they believe to be the last remaining bulwark of Brit solvency; that is, their overseas investment and property position. As one of the Brit said to me, "what these people believe is that, if your appraisal of the Iranian situation is correct, then the choice before you is whether Iran goes Commie, or Brit goes bankrupt. I hope you wld agree that the former is the lesser evil". Therefore, they will accept no settlement by which (a) it cannot be plainly shown to everyone that Mosadeq has not profited over rulers who abide by their contracts, or (b) by which Britain is humiliated and discriminated against. It is for this reason that it is impossible to induce the Brit to accept the exclusion of Brit companies and Brit citizens in favor of a Dutch operation. It wld be like asking us to step aside in favor of Guatemala.

It is for this reason that they attach so much importance to the suggestion that Amer interests shld participate in some solution. This, I am sure, is based upon two points: (1) That our participation in any settlement wld raise the prestige of the settlement and the participants; and (2) that the introduction of an Amer company into the situation wld prevent any action being taken except what our and the Brit oil companies wld regard as in their interest. The Brit do not believe that Iran is close to disaster. They believe its standards are so low that it will take a long time dying. And, therefore, they are prepared to take risks which we think very reckless, partly because they do not believe that the risk is very great, and partly because they do not believe that the danger risked is as great as the danger invited by taking a conciliatory action now.

These attitudes are very firmly held, and, in my judgment, there is not the faintest possibility of getting the Brit by any sort of argument to change their attitude during the few days when Mosadeq remains in New York. Indeed, I believe that their main purpose now is to leave us without any bargaining material until Mosadeq gets away. Amb Gifford was told by Mr. Eden after our last conference that just before it "the old man" had telephoned him and told him not to yield an inch.

For another reason, also, it is impossible to alter the Brit attitude quickly. The new ministers are depressingly out of touch with the world of 1951, and they are being advised by the same officials who have allowed the govt to follow the AIOC meekly into disaster. Of course, these officials continue the same arguments and the same analyses. The ministers admit that they know nothing about the facts and must rely on the officials.

The circle is complete. The only thing which is added to the Labor party attitude is a certain truculent braggadocio. They have not been returned to office to complete the dissolution of the empire.

In one respect I think both the Dept and Mosadeq misconceive the Brit attitude. It is not merely that they believe that by not dealing with Mosadeq and by allowing Iran to suffer the consequences of its actions, a new govt may be installed which wld give them a better agreement. It is that they wld not, as presently advised, make the agreement as proposed with any govt whether Mosadeq or his successor.

Therefore, I do not see any purpose in my attempting to get out of Eden some counter-proposals within the next three days. I know that they will not be forthcoming.

Harriman and I are to see Eden on Tuesday evening.[4] He is speaking in the UN on Tuesday. We shall talk with him very frankly. We have already indicated to him that the inability to reach a settlement will raise the very questions which the Dept now raises. We will tell him that we propose to recommend some supporting action. I propose to point out that he is putting responsible Amer officials in an impossible position. . . . And I hope in due course we can make some impression, but we cannot do it in three days, and there is no use trying. It will only make matters worse and they are bad enough already. If, indeed, it is the last chance, then we must face that.

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[4] Nov. 13.

We believe, as a last extremity we shld help the Govt of Iran. It shld, however, not be done now; and before it is done, it shld be thought over thoroughly and freely with the Brit, and we shld delay for a time sufficient to allow existing circumstances to operate to the detriment of Mosadeq provided such delay does not imperil too seriously Iran's orientation to the West.

[ACHESON]

No. 130

888.2553/11–1451: Telegram

The Secretary of State to the Department of State

TOP SECRET PRIORITY PARIS, November 14, 1951—3 p. m.

2862. Eyes only for Acting Secretary Webb for such distribution as directed by him from Acheson.

Conversation re Iranian oil dispute.

Participants: Secretary Acheson, Ambassador Bruce, Ambassador Harriman, Mr. Eden, Sir Pierson Dixon, Mr. Shuckburgh.

The fol is a full summary rather than a detailed report of a long and frank talk last night between the above persons.

The US quandary was first stated in this way:

Neither Eden nor Churchill had, nor cld be expected to have, personal knowledge of all technical and intricate business and political factors leading to final judgment. For that matter, neither did Harriman and Acheson, though they had been perhaps involved longer in the matter. Therefore, reliance necessarily was placed on advisors. From the US point of view, this meant that British judgments were formed by advice of the very men who had led British policy into the present trouble. When we were asked to support the British, we were asked to do exactly what these men recommended. It was impossible for us to accept such a position.

Thus, one important, if not essential, element was to get a fresh point of view on the British side, against which to test our political and economic judgments. It was suggested that Eden might find it useful to ask Lord Brand and Dennis Maris, or persons of comparable standing and experience who had worked with us, to review the sitn both in London and Washington as quickly as possible. Mr. Eden asked whether Lord Leathers shld do this, adding that he was largely responsible for present British governmental position. We said that it was up to Mr. Eden whom to select, but that we were stalemated going around the present circle.

The second aspect of the talks related to substance of policies. Here we had the familiar debate.

The British claimed that, if we had supported them, events wld have been different and their policy wld have been shown to be right; whereas, now we claimed that they were proved wrong because our lack of support created the very sitn which we pointed to as proof. We thought that the history of the AIOC troubles in Iran, compared to the relatively happy sitn of all other companies in all other countries, was answer to this view.

We then asked whether the British had any specific policy, except to boycott Mosadeq, hoping for his fall. What specific proposals wld they expect a successor govt to accept? For instance, we were absolutely convinced that AIOC cld not return; were they? Eden was not so convinced and believed contrary possible, but did not give the impression that policy wld be fixed upon this point.

We then said that our present belief was that in a period of between one and two months, if nothing happened, disintegration in Iran wld reach a point where, without financial help, the govt wld collapse. We could not accept responsibility of denying financial help and bringing this about. At some point we wld have to act and we cld foresee the consequences of our act might be to create great bitterness in Anglo-American relations. Were we all warranted in taking these terrible risks, and for what purpose?

It was quite possible, indeed probable, that no deal could be made with Mosadeq, but that had to be demonstrated and not assumed. Negots were essential in order to show in Iran that acceptable alternatives to Mosadeq's position were available. This was not being done. The British argued that their advices were that negots with Mosadeq strengthened him, while our advice was that it wld weaken him. We agreed to this conflict of views, pointing out that the fundamental purpose was to strengthen the Shah and that the Shah and his advisers, who had everything at stake, believed our view the sounder one.

Eden then mentioned the message regarding talk which Garner of the World Bank had with Mosadeq, reported in a separate telegram.[1]

At this point a long telegram was brought to Eden containing a proposed statement at question time in the House of Commons today. While he did not read the statement to us, Eden told us enough of it, including the fact that it contained the four principles read to us last week[2] and with which Linder is familiar, to make us realize that it was very bad indeed. Eden thought so himself and said that he wld try to stop the statement and wld advise that nothing be said unless something was required as a result of Mosadeq's speech.

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[1] Telegram 2853 from Paris, Nov. 14, reported that Garner had suggested interim operation of Iranian oil properties by an agency established by the World Bank with the Bank acting as trustee and dividing the proceeds of its operation between the British and Iranians and holding a third share in trust pending settlement of the dispute. Eden had expressed interest in this proposal and said he would discuss it with his government. (888.2553/11-1451)

The up-shot of the whole matter is about as fols:

1. Eden, I believe, understands how impossible it is to look for our "support" in the way he had been demanding.
2. He understands that in a matter of weeks we may determine unilaterally to give financial aid to Iran, and he sees the difficulties that this will produce.
3. I think that he is beginning to see, although I wld not bet much on this, that the British position must move, and move in the direction of specific proposals. He may refuse to make these to Mosadeq, but understands that he must make them at once to any successor.
4. I believe he has much interest in the World Bank suggestion, as a means both for tiding over the great predicaments of the present and furnishing a bridge into a future settlement.

[Acheson]

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[2] See Document 127.

No. 131

Editorial Note

Following their conversation on November 8 (see Document 126), McGhee and Mosadeq talked further on November 13 and twice on both November 15 and 17. During these conversations McGhee proposed various solutions to the oil question, including the possibility of an Anglo-Dutch-American consortium and a World Bank trusteeship of the Abadan refinery, but none of the plans was satisfactory to Mosadeq. The Iranian Prime Minister insisted on a Persian Gulf price of $1.75 per barrel, while McGhee repeated that such insistence precluded any settlement.

At their second meeting on November 15 McGhee also delivered President Truman's interim reply to Mosadeq's request (see footnote 4, Document 126) for economic assistance, which stated that the request was being considered and a further reply would be forthcoming.

Memoranda of the five conversations between McGhee and Mosadeq are in file 888.2553/8-1051. No copy of President Truman's interim reply has been found in Department of State files, but it is described in the memoranda of conversation for November 15 and 17, referred to above.

No. 132

888.10/11-1751: Telegram

The Acting Secretary of State to the Secretary of State, at Paris[1]

TOP SECRET
PRIORITY

WASHINGTON, November 20, 1951—2:51 p. m.

Telac 40. Dept is in complete agreement with Secy's views contained Actel 16 Nov 17,[2] has been guided by the principles stated in recent actions and is making future plans accordingly. Dept declined give Mosadeq ltr he requested re MSP assistance and Pres's ltr stated his request for financial assistance "wld be considered in accordance with our well-known desire to assist the people of Iran".[3] Recent responsible US editorial comment has been against Mosadeq and aid to him on grounds that he has through his intransigence made it impossible find basis for agreement. . . . On his departure Mosadeq was advised by McGhee to accept Pres's ltr that "careful consideration" wld be given at face value and not interpret too optimistically in view difficulty explaining to US people and Cong why we shld extend large scale aid to Iran which cld by own actions make possible income of $150-$200 million a year.

We agree that if it becomes necessary render Iran budgetary assistance every effort shld be made avoid Mosadeq's making polit capital therefrom. On other hand, while it wld be most difficult reach settlement of oil dispute while Mosadeq remains in power, we do not think it impossible and since we may have no alternative, wish avoid closing door completely. Mosadeq appeared to be in negotiating mood in Wash up to point where he became convinced Brit were not willing to negotiate with him. There is some evidence that he and his staff were moved even on question of price. We believe we must be prepared, rather than permit economic collapse in

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[1] Drafted by Ferguson and Rountree and cleared by Linder, Bonbright, Matthews, and Nitze. Repeated to Tehran and London.

[2] In Actel 16 Secretary Acheson stated his belief that it was "of vital importance" to make clear that any aid by the United States was given to the Shah and Iranian people. The United States should indicate that its concern was for the Shah and his people and not for Mosadeq. Since any further negotiations would probably be handled in Tehran, Acheson also deemed it "important to build Henderson up." (888.10/11-1751)

[3] Regarding the exchange of letters between Mosadeq and President Truman, Nov. 9 and 15, see footnote 4, Document 126 and *supra*.

Iran, to go forward with some form of assistance even if Mosadeq is still in power.

Present thinking is that decision budgetary aid shld be made in principle but not finalized for time being pending clarification polit situation in Iran fol Mosadeq's return. This connection, IranGov's recent withdrawal some $8.5 million from IMF shld prevent dangerous financial crisis for another month or two.

Since Mosadeq has requested assistance in form of loan agree we shld not render it on grant basis, particularly in view use to which it will be put. Aid of this type wld require a number of firm commitments on part of IranGov, and Majlis approval probably will be necessary regardless of whether it grant or loan.

We are in full agreement with Secy's views re further negots in Tehran. Dept considering advisability of sending, at appropriate time, technical expert on oil question to assist Henderson on temporary basis. Wld appreciate Henderson's views this matter.

We also agree any such aid shld be in response appeal by Shah and shld be used to maximum extent possible to support Shah and increase his prestige in eyes Iran people.[4]

WEBB

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[4] On Nov. 21 Ambassador Henderson reported his full concurrence with the views expressed in this telegram, but stated his belief that sending a technical expert should be delayed until there were specific tasks for him. (Telegram 1897; 888.10/11-2151)

No. 133

888.10/11-2051: Telegram

The Acting Secretary of State to the Embassy in the United Kingdom[1]

TOP SECRET WASHINGTON, November 23, 1951—11:58 a. m.

2642. Definitive reply to Mosadeq's recent request (urtel 2432 Nov 20[2]) for direct financial assistance will not be made for some time if at all. While Dept position not yet final it is unlikely assistance of this type will be granted unless and until it becomes clear such aid is essential to preserve Iran for free world and preferably to govt more cooperative with us and more realistic on oil issue than present govt. In any event no more aid wld be granted than bare minimum to keep IranGov going so pressure to settle oil dispute wld not be relieved. Dept has given no encouragement to Irans that aid will be forthcoming, however, Irans apparently have deliberately misconstrued courteous language of Pres's reply to Mosadeq to create impression he is not returning empty-handed and possibly to force US hand. We are trying to correct this impression.

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[1] Drafted by Ferguson and cleared by Bonbright, Thorp, and Matthews. Repeated to Paris and Tehran.

[2] In telegram 2432 Ambassador Gifford asked for information on the form and scope of aid for Iran that was then under consideration in Washington, emphasizing the bad impression which any policy that seemed to perpetuate Mosadeq's regime would create in the United Kingdom. (888.10/11-2051)

We contemplate proceeding with aid programs under MSA. These include mil assistance in neighborhood $34 million and econ aid of Pt Four type with some econ development projects in amount of $23,050,000. These programs have been discussed with Brit here and in Tehran who have put forth no objections. Only request of Amb Shepherd in Tehran was that econ aid not be granted in lump sum and this is, of course, not contemplated. Exim Bank loan has been discussed with Mosadeq's del by Bank but Irans have not been encouraged to expect immediate action since they have not yet met previously stated requirements for implementation loan.

Shld it be found necessary to render Iran budgetary support of type requested by Mosadeq, Brit will of course be informed in advance and be given every chance to express their views.

Dept has no particular desire support Mosadeq regime since Dept believes he has by his own actions taken his country down road to disaster. Dept is of opinion however that both in proposals made through Ala in Sept and in recent discussions here he moved some distance from earlier attitude and that while agreement with him wld be extraordinarily difficult, it is not impossible. Brit did not, however, make counter proposals to objectionable points in Dept suggested basis for settlement and Mosadeq returned to Tehran convinced that Brit had no intention of ever dealing with him. While we understand Brit position, fact remains Brit must share some responsibility with the Irans for impasse we have now reached.

WEBB

No. 134

888.10/11-2851 Telegram

The Acting Secretary of State to the Embassy in Iran[1]

SECRET WASHINGTON, November 28, 1951—6:39 p. m.

1102. FYI during latter part of Mosadeq's stay in Wash, he recd Garner Vice Pres IBRD for gen conversation at suggestion of Pak Amb. During course of conversation Garner informally discussed possible participation of Bank in temporary solution oil dispute. Basis of Bank participation wld be full agreement by both parties as to conditions. Before proceeding he requested reaction of Brit Govt to his proposals and was told they cld not be given before Mosadeq's departure. Garner consulted Dept who encouraged him, and Walter Levy, for technical advise, but was not able to proceed further with Mosadeq. Subsequent to Mosadeq's departure Brit have expressed some interest and matter therefore has been pursued since that time by Garner with Brit reps here.

Briefly, proposal is (1) Bank to make suitable arrangements for operation of oil fields and refineries by either an Amer or Dutch but not a Brit group. In event Amer group selected it wld preferably be a small group rather than a major producer.

(2) Petroleum to be sold FOB Abadan through normal internatl channels, i.e. Brit channels although this pt not specified in conversations with Mosadeq.

(3) Oil to be sold at a discount with Bank considering discount of 33⅓ percent as working hypothesis, proceeds from sale after discount to be split 50-50 between Bank and IranGov. Bank's 50 percent wld be used to pay operating expenses and any advances it had to make for working and other capital required to resume operation, balance to be held for payment as compensation if and when agreement reached on this pt. 50 percent available to Irans wld be free of all charges.

While Dept has encouraged Bank to proceed in this matter, it has serious doubts that proposal in present form will be acceptable to both parties, or to US. Garner has not yet run up against particular problems in dealing with either Brits or Irans which have so far blocked all US efforts. Furthermore, there appear to be some specific pts in proposals which we doubt cld be agreed upon:

a) Brit wld not accept exclusion from oil fields and refinery;
b) 33⅓ percent discount in Dept's opinion wld make price Iran oil too high to be competitive and wld exceed 50-50 formula. Most

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[1] Drafted by Ferguson. Repeated to London and Rome, the latter for Secretary Acheson who was there to attend the Eighth Session of the North Atlantic Council.

unlikely Brit wld accept such a price. Dept in conversations with Mosadeq had in mind 40-45 percent discount; and wld be most reluctant to see any less because of adverse impact on other concessions.

c) It is difficult to see Mosadeq accepting arrangements whereby Irans wld receive only 50 percent of proceeds of sale of Iran oil, amounting to only 58 cents a barrel after discount.

Plan is still in prelim stages and Bank is in process of refining it. After this is done, Bank contemplates submitting it to both Brit and Irans stating Bank's willingness advance funds required get Iran oil industry going if proposal acceptable to both parties. While encouraging Garner to proceed with his proposal, Dept has cautioned him regarding reactions elsewhere if Iran receives more favorable terms than other oil producing countries and of dangers involved in permitting IBRD to become involved in internatl oil business on permanent basis or becoming an agency to which other concession-holding countries might look for more favorable concession arrangements. Participation of Bank shld be clearly on temporary basis only.[2]

WEBB

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[2] Garner had flown to Rome on Nov. 26 to discuss possible IBRD participation in the Iranian oil industry with Linder. The proposal he made was similar to that outlined in this telegram and apparently had been drafted by Garner as early as Nov. 16 for the IBRD Board. Linder reported this to Secretary Acheson in a memorandum dated Nov. 28 and transmitted a report on the conversation to the Department on the same day. Copies of the memorandum to Acheson and telegram 2391 from Rome are in file 888.2553/11-2851. For two other accounts of the participation of the World Bank in the efforts to achieve a settlement of the oil question, see Edward S. Mason and Robert Asher, *The World Bank Since Bretton Woods* (Washington, Brookings Institute, 1973), pp. 595 ff. and Press Release No. 285 of the International Bank for Reconstruction and Development, dated Apr. 3, 1952, and its attachment entitled "Review of the International Bank's Negotiations concerning the Iranian Oil Problem." A copy of the press release is in file 888.2553/4-352.

No. 135

788.13/11-2851: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET PRIORITY TEHRAN, November 28, 1951—7 p. m.

1985. 1. During conversation which I had yesterday with FM I said I wld like pay my respects to Mosadeq at his convenience. Later in day FM set appointment this morning. Mosadeq recd me in cordial manner and our conversation lasted for approx two hours.

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[1] Transmitted in two sections; repeated to London.

2. Mosadeq said in his opinion US officials had done everything possible while he was in US to bring about agreement. Brit however, seemed to remain aloof. He was under impression Brit preferred that if any agreement shld be reached it shld not be thru intermediation of US or with him. In view present Brit attitude he was beginning to wonder whether any agreement between Iran and UK re oil wld be possible. In meantime Iran financial situation deteriorating govt cld not continue indefinitely without funds from some source to support 70,000 idle workers in oil fields. He wondered what wld be my opinion as to advisability of suggesting amendment to oil nationalization law which wld permit Iran to sell oil to any interested country rather than merely to former customers. He had reason to believe that Iran cld sell fairly large quantities oil at once to such countries as Czechoslovakia, China and Argentina. Shld it not do so in view its urgent need for funds? I said if Iran had opportunity to sell oil to countries other than old customers and desired to do so, I did not think it would be appropriate for me to raise objections. Nevertheless, I thought it only fair to point out that if Iran shld sell oil to Communist China at time when that country was engaging in hostilities against UN, Iran wld at once forfeit sympathy of Amer public and of most peoples of free world. Furthermore, altho it might be possible sell oil to countries like Czechoslovakia for short period, it was not likely that such countries wld be dependable customers because there cld be no natural trade relations of importance between them and Iran. What cld these countries, for instance, over a long period give to Iran in exchange for oil? It would be wiser for Iran to concentrate on endeavors to retain its old customers with whom natural trade channels existed, rather than to try to create unnatural trade ties. Mosadeq indicated that he wld drop, at least for time being, idea of proposing such an amendment.

3. I asked Mosadeq whether, during his various conversations in US, any plans had been submitted to him which, in his opinion, might offer avenue for solution oil problem. Mosadeq replied only suggestion which seemed to him to offer even slight hope was project for Internatl Bank to make loan and to take over operations. He said that during conversations re Internatl Bank, only unsolved problem, so far as he was concerned, was that of amount to be paid for oil. He in general was impressed by various proposals made by reps of bank, but found that they had no assurances that former customers would be willing pay prices for oil which wld leave enough to cover bank's expenses and give Iran share which country had right to expect. He had thought Internatl Bank wld

discuss this matter further with Brit and wld approach him again. Nothing further, however, had been heard from bank. He was still hoping that something cld be worked out by bank which wld be agreeable both to Iran and UK. He saw no other hope just now for agreement. During our conversation he indicated he might agree to plan whereby oil wld be sold thru Internatl Bank to former customers at Gulf price, X percent of proceeds to be retained by company to pay off loan and services, and X percent to be retained by bank in special fund to be used for paying compensation when eventually, an agreement cld be reached between AIOC and the Iran Govt. He gave impression he wld be willing to have Internatl Bank in conjunction with NIOC set up company for employment foreign and Iran experts to exploit oil fields and manage refinery. Said he cld not agree, however, to any Brit oil experts being employed in Iran. When I indicated that such attitude was not conducive to settlement he said it unnecessary stipulate that no Brit experts wld be employed; nevertheless, he did not like idea that Brit nationals again be connected with Iran oil operations, even as individuals.

4. I did not argue with Mosadeq or attempt to obtain more precise ideas his present thinking, since I thought it preferable not to undertake to discuss in absence of instructions any proposition which International Bank may have made or which it may contemplate making. So far as I can see, however, only solution which seems to offer any hope just now rests with Intl Bank. I assume Intl Bank is having discussions with Brit. I wld appreciate any info which Dept might be at liberty to pass on to me as to whether or not Intl Bank still interested in matter.

5. During our talk Mosadeq told me that Amer officials in Wash, in discussing possibility of budgetary aid to Iran, had said that US Congress might well take view that Iran, instead of asking US for such aid, shld try to come to some arrangement with the Brit whereby its urgent financial needs might be met through oil revenues. I said it seemed to me that official in question was merely trying to be fair to Mosadeq in informing him what attitude of Congress was likely to be. I added it wld be unfortunate if he shld have impression that granting of budgetary aid to Iran by US wld be easy at time when US public was inclined to believe Iran wld not need such aid if it wld come to an agrmt with Brit re oil. I said that judging from attitude Amer press State Dept wld meet with considerable opposition in US if it shld undertake to extend budgetary aid to Iran in present conditions. That was one reason why it seemed so important that Iran leave no stone unturned in its efforts to find some way of restoring its oil revenues. I indicated that I saw no hope of restoration of these oil revenues in immed future

except under some plan which wld be acceptable to Brit. He seemed to take my frankness in good part.

Henderson

No. 136

788.5 MSP/12-1451 Telegram

The Ambassador in Iran (Henderson) to the Department of State

TOP SECRET Tehran, December 14, 1951—7 p. m.
NIACT

2199. 1. Have just spent more than 2½ hours frustrating and depressing conv with Mosadeq, most of which devoted to subj exchange ltrs re aid. Embtels 2118, December 9 and 2193 of December 14.[1]

Conv was at times tense, at times lightened by humorous or semi-humorous comments. There were of course considerable Mosadeqian repetition, backtracking, and evasiveness. Net result was complete failure my part persuade him agree to exchange ltrs. He expressed willingness however, if I shld insist, to submit my ltr as it stands or amended to Majlis which he was sure wld be hostile to suggested exchange. Majlis cld then direct him as to answer.

2. I explained to him that members Cong had insisted on incorp Sec 511a in act, in order to satisfy their constituents that expenditure of US tax payers money authorized in act wld be in interest internatl peace and security. This sec provided that US must have certain assurances from countries receiving aid of character contemplated for Iran, in order to be able to continue such aid after January 7, 1952. I said my primary purpose in seeing him today was to endeavor arrange exchange ltrs which wld furnish US with required assurances. In my opinion giving of these assurances by Iran wld not constitute any departure Iran's internal or fon policies but wld merely rep confirmation of policies already being pursued by Iran. I thereupon handed Mosadcq suggested drafts of ltrs and Persian translations. After carefully reading two ltrs he said Iran cld not possibly agree to them since their exchange wld rep treaty alliance. In any event exchange of this kind must go to Majlis. Endeavor persuade Majlis to agree to such exchange wld be sure to result in destruction such popularity as US still enjoyed in Iran. Majlis wld never consent to promise for any amount of money

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[1] Telegram 2118 transmitted suggested texts of exchange letters concerning Section 511 assurances, while telegram 2193 reported certain changes in the suggested texts. (788.5 MSP/12-951 and 12-1451)

that Iran wld join US in case of war between US and countries behind Iron Curtain.

3. I did my utmost persuade Mosadeq that no alliance was suggested; that exchange this kind cld be effected without depriving Iran its freedom action in time either war or peace; that by agreeing to such exchange Iran would not be committing itself any further than it had already done when it signed Charter UN. After arguing over my letter point by point, Mosadeq finally concentrated his opposition upon phrase "defensive strength of the free world". He said "free world" had become term which was universally understood to mean those countries not belonging to Sov bloc. This meaning was accepted in Iran and would be accepted by Majlis. There could be no interpretation this point other than that Iran was agreeing to join with other nations of "free world" in its def against Sov Union. He said note would be less obnoxious if this whole phrase could be deleted. I said I feared deletion this kind would result in assurances which would not meet requirements of Cong. It seemed to me Cong expected countries receiving assist to indicate their support of policies of internatl coop in interest world security. I might suggest to my govt that we substitute phrase "and to the support of the principles contained in the Charter of the UN" for the phrase to which he objected. I did not know, however, whether my govt cld accept such a change. Mosadeq replied that such change would still be objectionable to Majlis; nevertheless, it would not give rise to so much opposition as phrase contained in law.

4. Mosadeq said that altho US was seeking commitment from Iran it was not committing itself. He suggested that my letter should contain definite promise that US wld give Iran $23 mil for econ develop, in return for assurances required. He cld then reply that Iran in return for $23 mil would be willing to give $23 mil worth of the kind of assurances required. At this point I began to assemble my papers to depart. I said that if he talked to me in this vein it was useless for us to pursue subj further. I could not understand how even in joking he could suggest that Iran for value recd would be willing contribute $23 mil worth of support to efforts to promote world peace and to strengthen internatl security at time when US by only one act was authorizing expenditure more than $5 billion for this purpose. Mosadeq made several soothing remarks. He said he would like to know precisely what US really desired from Iran. I answered US merely desired that Iran should take such steps as might be nec in order preserve its pol independence and territorial integrity. US really believed, and this belief was strengthened by remarks made at various times by Mosadeq himself, that without US aid it would be difficult for Iran to main-

tain its independence and integrity. As it desired to give aid Iran, Cong had laid down certain conditions for extension this aid which it did not seem to my government should be difficult for Iran to meet. The US desired from Iran just now assurances which wld enable it to help Iran.

5. Mosadeq then suggested I write him a ltr stating that US was prepared to spend $23 mil for econ development Iran provided Iran was determined to maintain its pol independence and territorial integrity. He wld write a reply thanking US for its generosity and stating that Iran determined defend its independence and integrity. It would not be nec he said for such exchange to go to Majlis and our aid missions cld continue to function. I replied that while such an exchange wld be most pleasant and agreeable it wld not meet requirements of act.

6. Mosadeq told me as friend of US he wished to impress upon me and upon my govt that it wld be grave mistake to ask Iran for assurances of the character outlined in my ltr. At least three grps Majlis wld oppose giving of these assurances:

(a) Grps under Brit influence who were opposed to US playing active role in Iran.
(b) Grps under Sov influence; and
(c) Iran patriots who did not wish their country to become attached chariot any great power.

It wld be better for US to stop sending aid than to ask for assurances of such a character since request for these assurances wld merely result it arousing resentment and aid wld be stopped anyway. I asked Mosadeq if in case he shld make request for the nec assurances he wld present matter in favorable light to Majlis. He said he cld not support our request. I said my govt not accustomed request any PriMin to submit to his Parliament for approval an exchange of documents with US which he himself did not approve. If Mosadeq objected to giving nec assurances he cld refuse to do so at once and matter need not go to Majlis. Mosadeq said he wld not take personal resp of refusing to give such assurances. He wld prefer to place resp on shoulders of Majlis. It might be better submit matter to members Fon Affs Comits Majlis and Senate. These committees if they desired cld take resp for refusing to give assurances and matter wld not therefore become subj debate on floor Parliament.

8.[2] I said I did not see how my govt at this stage cld cease giving aid to Iran without offering its own public and world public explanation. Only honest explanation wld be that Iran unwilling to give assurances required in law. I wld however refer matter again to my govt for purpose of ascertaining whether certain alterations might be made in draft my ltr which might make it more acceptable to Majlis. In view explicit provs law I did not think much cld be done. In response my ques, Mosadeq said he wld prefer that I not submit to him suggested draft of his reply. Majlis shld suggest kind of reply which shld be made.

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[2] This and the following paragraphs are numbered as in the source text.

5. Mosadeq asked me whether Irans refusal to give required assurances wld also result withdrawal ARMISH. I replied that I did not believe withdrawal of ARMISH wld automatically follow but I thought that work ARMISH wld be much less effective if Iran wld no longer be able receive arms under act. Mosadeq said Iran in any event was paying for all arms it recd and he cld not understand how its right to purchase arms wld be affected by refusal to give assurances. I said my understanding was that Iran was also receiving certain amt arms as grant. He said if this was so, he was being deceived by Min War, which had insisted that Iran was paying for all arms it recd. He said he wld look into this matter further since he desired no arms as gifts.

6. I asked Mosadeq if in his opinion it wld be nec for approval by Majlis of exchange ltrs prolonging present ARMISH agrmt. He said there cld be no such exchange since there had been no valid agrmt. Original agrmt never ratified by Majlis and was not therefore valid. Any exchange between two govts relating retention ARMISH must go before Majlis. No such exchange nec, however, since ARMISH cld carry on day by day as it had in past without any valid agreement. I said such arrangement wld not be satis my govt. Original agrmt had been registered with UN, as had extensions. Unless another extension or a new agrmt shld be registered charges might be made that mission was in country illegally. Furthermore, mission was already incurring increasing difficulties with customs officials who claimed that it had no right to customs privileges. Mosadeq said this latter detail cld be arranged. Govt from its budget cld reimburse mission for funds expended by it for customs duties.

7. Referring to cessation aid, Mosadeq said he never expected much from Point IV programs anyway. He said he had told McGhee Point IV like Iran tarantula, which everyone said wld bite but never had been known to bite. I said I had examined carefully Point IV prog for 52 and was convinced it had teeth and cld bite if given chance. I emphasized that decisions which were being made during our conv were extremely serious. They might result in life or death for Iran. They meant also much to my own govt and to world peace. I had heard his various remarks with heavy heart because for many years I had been friend of Iran and had undergone

much strain and anxiety in connection with efforts to prevent Iranian people from falling under domination of most repressive and ruthless regime known in modern times. Mosadeq said he also regretted sitn which had developed. It seemed to him US had decided to give Iran aid and then under sinister influence, which cld be none other than Brit, had laid down conditions which it must have been clear Iran cld not accept. I told Mosadeq I wld submit our conv to Wash immed and give him reply as soon as possible. Matter was extremely urgent since we had only 3 more weeks before January 7.

Henderson

No. 137

788.5 MSP/12-1451: Telegram

The Secretary of State to the Embassy in Iran[1]

TOP SECRET WASHINGTON, December 21, 1951—4:50 p. m.
PRIORITY NIACT

1274. Departmental consideration problems raised in connection Section 511 and Battle Act assurances[2] has been in light fundamental issues raised. On one hand it is recognized that failure IranGov comply legis requirements will render it impossible for US to extend assistance to Iran. Refusal of IranGov to comply and consequent termination aid wld, moreover, in all probability result strong criticism of US with inevitable claim action was part pressure to bring about capitulation of Iran to Brit in oil controversy. On other hand, obvious weakness on part of US in relation to Mosadeq's intransigence wld probably serve to increase his obstinacy and weaken US position. Any substantial departure from specific undertakings contained in legislation wld at minimum require prior consultation Congressional leaders (now out of Washington) and give rise to similar demands by other countries receiving US assistance, thus weakening purposes of Mutual Security legislation.

It is realized that if Mosadeq's resignation materializes, situation might be somewhat altered. Dept assumes, however, that any successor Govt, particularly with Mosadeq in opposition, wld encounter real point problem in giving Section 511(a) assurances since this might be interpreted as clearly aligning Iran with US in opposition to Sov Union and thus placing Iran in more exposed position, which its policies have attempted to avoid. For this reason, believe we shld pursue substantially same line of action in light present possibility that Mosadeq may withdraw than if no such imminent possibility existed.

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[1] Drafted by Ferguson (GTI) and Rountree on Dec. 18; cleared by Nitze, Linder, Bonbright, Matthews, Bohlen, Tate, Ohly, Merchant, Brown, TCA, and the Department of Defense; and signed by Secretary Acheson.

[2] Reference is to the Mutual Defense Assistance Control Act, signed into law Oct. 26, 1951, as P.L. 82-213. For text, see 65 Stat. 644. Under the terms of this legislation, the United States was obliged to discontinue economic and military assistance to countries which shipped strategic goods and raw materials to the Soviet Union or its satellites.

[Here follow comments on the suggested texts for the exchange of letters with Mosadeq.]

Suggest fol gen approach to problem which you may in ur discretion pursue:

(1) Believe it advisable that Mosadeq not get impression we are alarmed over his possible refusal make it possible continue Amer aid. On other hand he shld understand clearly that legislative requirement imposes real problem which must be met if our programs are to continue. In addition to ur discussions with Mosadeq, you shld talk with Shah and Ala and urge them to prevail upon Mosadeq to find some satisfactory means of meeting requirement. They shld understand that Iran stands to lose great deal if Mosadeq remains intransigent or if he shld not be replaced by someone more aware of realities of situation. Suggestions contained Deptel 1173 Dec 6[3] wld be pertinent ur discussions with Shah.

(2) Suggest you endeavor obtain Mosadeq's agreement exchange of notes with modifications authorized above. As indicated, Dept wld consider other slight modifications considered essential obtain his agreement.

(3) Without giving Mosadeq impression undue concern, every effort shld be made effect exchange on basis agreed drafts in line foregoing. If Mosadeq remains absolutely intransigent, however, it might be possible to have him write ltr to you, perhaps in conversational tone, discussing Amer aid to Iran and including statement that he has read Mutual Defense legis and finds that principles stated in Section 511(a), with exception of No. 3 which does not apply to Iran, conform to policies of IranGov. He might say in connection with fourth principle that it is, of course, policy of IranGov to make, consistent with its policies of econ stability, full contribution permitted by its manpower, resources, facilities, and gen econ condition to the support of purposes of UN. He might state that as you know, however, Iran econ in difficult situation and Iran cannot afford do more than maintain limited mil strength. You might tell Mosadeq that if he were willing to write such ltr you wld be prepared to see if it wld meet legis requirements even though it did not spell out assurances in detail and believe this might be case. FYI, it is emphasized that while Dept wld be disposed accept such

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[3] Telegram 1173 pointed out the urgency of securing Iran's assurances under Section 511 of the Battle Act before Jan. 8, lest the United States be forced to terminate assistance. It was suggested that Henderson might prefer to go directly to the Shah on the matter rather than engage in prolonged talks with Mosadeq. (788.5 MSP/12-651)

ltr if it contains substance of foregoing, assuming approval Congressional committees, it is earnestly hoped that this will not be necessary in view obvious disadvantages of such substantial departure from procedure re other participating countries. Apart from difficulty negotiating on basis Mosadeq's draft, result even if substance substantially same as US draft wld appear quite different to Cong, thereby spotlighting divergencies between assurances from Iran and other countries.

(4) In event Mosadeq refuses even this suggestion and if approach to Shah unsuccessful Dept wld consider seeking Section 511(b) assurances from IranGov entirely within context of econ and technical assistance programs. This wld require termination of mil aid shipments after Jan 8 which wld remain in suspense until IranGov, either under Mosadeq or his successor, prepared give assurances required by law. It wld be hoped, however, that such termination cld be handled as quietly as possible and that it will be possible for mil and *Gendarmerie* missions to remain. It wld appear impossible, however, continue paying expenses substantial number Iran mil students now in US, and termination such payments and their subsequent return to Iran undoubtedly will attract public notice, particularly in Iran. If you shld recommend it and IranGov shld agree, it might be possible after Jan 8 without Section 511(a) assurances for Iran students continue receive training and some mil shipments to be continued, both on cash reimbursable basis under Section 408(e) of Mutual Defense Assistance Act of 1949.

Fourth alternative above is, of course, undesirable in many respects, although preferable to complete cessation Amer aid. Dept and Defense wld be greatly concerned over possible effects upon status mil missions including chance that Mosadeq might now or later request their withdrawal or refuse extend agreements.

Dept fully recognizes extreme difficulty position in which you have been placed as result several factors converging at once, i.e., (a) 511 assurances, (b) Battle Act, (c) ARMISH agreement, (d) decision which must be taken in relation Iran's request for second withdrawal from IMF, (e) econ aid agreement, in addition continuing problem of oil controversy including IBRD activities. Recognize that Mosadeq undoubtedly will interpret many of our efforts in connection with these matters as application of pressure upon him in favor Brit interests. For this reason it is hoped that Section 511 assurances can, to extent possible, be negot in advance of other matters. This is particularly desirable since this matter is in Dept's judgment most urgent in our relations with Iran.

Pls tele ur comments soonest. Before discussing with Mosadeq fourth alternative above (cessation of mil aid) Dept shld be consulted.[4]

ACHESON

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[4] On Dec. 26, Henderson reported that he discussed the exchange of letters with Mosadeq two days earlier and the Prime Minister seemed to be even more unreasonable and inflexible than he had been in their previous conversation. No agreement was reached on the texts of the letters and Mosadeq stated that he could not enter into any exchange of letters without prior approval of the Majlis. (788.5 MSP/12-2651)

No. 138

888.2553/12-2651: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET NIACT TEHRAN, December 26, 1951—noon.

2329. . . .

1. In late afternoon Dec 22 I had hour's conversation with Shah. He seemed frustrated, discouraged, fatalistically inclined. We discussed (a) progress exchange of notes re econ aid; (b) provisions Battle Act; (c) more gen aspects US aid policies to Iran; (d) Mosadeq's policies and possibility that Mosadeq might become more reasonable or might be replaced by another PriMin.

2. I discussed with Shah difficulties encountered in attempt to effect exchanges notes re econ and milit aid and milit mission, keeping in mind various Dept instrs. I also told him our perplexities arising from combination provisions Battle Act and Mosadeq's expressed intention sell petroleum to Sov bloc if latter shld desire to buy.

3. Shah said if events shld so conspire as to render it impossible for US to continue to extend fin, econ or milit aid to Iran, he hoped some way cld be found of explaining matter to Iran public so that reaction wld not be too violent. He was afraid when Iran public recd info US had stopped aid, it wld believe that it had joined Great Britain in abandoning Iran to Communists and all friends of Western world wld lose hope as well as courage to continue resist Commie pressure.

4. I told Shah it seemed to me we shld not be thinking about what to do in case US aid shld cease, but what to do to prevent it from terminating. Shah replied combination US laws and apparent determination Mosadeq to take no steps which wld render Iran eli-

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[1] Transmitted in two sections and repeated to London.

gible for Amer aid might result in cessation of aid. He did not know what he cld do. He was particularly worried about Iran milit students who were preparing to go to US and about those already in US. He did not believe however that Mosadeq cared much about what happened to milit students or for that matter what happened to Iran def forces.

5. I said I was deeply concerned at course which Iran was following at present; I had highest respect for Dr. Mosadeq as Iran patriot and leader. It seemed to me however that for last few months such things as Iran had been able to accomplish were of destructive instead of constructive nature. AIOC had been driven out and Brit influence in Iran had been greatly reduced. Practically nothing had been done, however, to heal gaping polit and econ wounds which Iran had suffered in gaining control of its own oil. Sources of revenue vital to Iran's econ and fin life had been cut off and there seemed to be no practical plans for replacing them. Mosadeq seemed to be hoping to obtain certain amt funds by selling oil to countries of Sov bloc or by borrowing from US. Any funds which might be obtained from these sources cld only be stop gaps and wld not solve Iran's problems. I said I had yet to hear of any constructive plan which might promise restore econ and polit stability of country.

6. Shah said he had given some thought to replacement of Mosadeq by another PriMin. He cld not however, find suitable person to take over. Furthermore, since there was no organized effective opposition to Mosadeq in country, he did not see how any change cld be effected except by coup. Successful coup must be followed, at least temporarily, by dictatorial regime and he did not know who cld be trusted to head such regime. I admitted matter was difficult. I said in my opinion any PriMin replacing Mosadeq must be man of decision, courage, organizational ability, loyalty to Shah and also with genuine interest in welfare Iran and its people. Shah wld be in better position than I to know where such person cld be found. I did not wish Shah to misunderstand me, I was not suggesting coup or any kind of extra-legal action on part Shah or anyone else. I was merely trying to point out it seemed to me Iran at present was headed towards destruction, that it cld be saved only by action Irans themselves, not by that US or any other fon country. Iran wld certainly be lost if Irans took merely fatalistic, frustrating view towards what was going on.

7. Shah thanked me for my remarks and said his only suggestion at moment was that I again talk with Mosadeq. He wld appreciate it if I wld report result my conversation to Ala. He wanted to do what he cld in matter but was not sure how effective his aid wld be. He again remarked that he was afraid US aid was being offered

four years too late. During these four years many Irans who in 1945, 1946 and in 1947 had pinned great hopes on West had become discouraged and lost influence. Iran feeling itself terribly isolated had gradually become mentally ill. He hoped US wld remember in dealing with it that Iran was sick nation and cld not be expected to behave normally. Therefore, US shld have patience and make all necessary allowances. There was tendency part Western world ridicule Iran when it assumed what seemed to be irrational and unreasonable attitude. He hoped US wld show understanding and sympathy and go as far as possible in making exceptions and rendering it easy for country to obtain assistance it needs so badly.

HENDERSON

THE QUESTION OF MILITARY AND ECONOMIC ASSISTANCE TO IRAN; INTEREST OF THE UNITED STATES IN THE SETTLEMENT OF THE ANGLO-IRANIAN OIL DISPUTE, 1952-1954

No. 139

888.2553/1-452: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET NIACT TEHRAN, January 4, 1952—6 p. m.

2462. 1. Prud'homme and Rieber of Int Bank discussed with Richards and me this morn problems created by Mosadeq's ltr to Garner of Jan 3 (Embtel 2448 Jan 3).[2] They said their tentative decision to leave Iran was based in part on hints which they had recd from Pirnia, Under Secy MinFin, who was acting as liaison between them and PriMin, to effect that PriMin wld not be displeased if they wld leave Iran until questions raised in ltr to Garner had been clarified. Pirnia had also told them PriMin did not wish them in meantime to make trip to South Persia. Prud'homme and Rieber thought it preferable that Garner make no reply to Mosadeq's ltr until they cld have chance discuss with Garner Iran sitn as they saw it.

2. I told them that I had obtained impression from my conv with PriMin yesterday eve that he was commencing to hope they wld not leave country just now and that his ltr to Garner wld not lead to breaking off of negots with bank. I said PriMin seemed to realize that if bank should withdraw from picture there was little hope

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[1] Repeated to London.

[2] Mosadeq's letter, Jan. 3, was sent to the Department in telegram 2445 from Tehran on Jan. 3. (888.2553/1-352) It raised eight separate points in the IBRD proposal on which Mosadeq sought clarification. In telegram 2448 Ambassador Henderson reported that Prime Minister Mosadeq was especially suspicious of Garner's suggestion that part of the proceeds derived from the sale of Iranian oil should go to the bulk buyer, whom Mosadeq assumed to be the British Government. If this were the case, Mosadeq said, this suggestion would be unacceptable because he assumed the IBRD would merely be acting as a tool of the British. The Prime Minister also disclosed that Prud'homme and Rieber, as a result of his letter, were planning on leaving Iran. Henderson offered to see the two IBRD representatives and to urge them to delay their departure in view of Mosadeq's stated desire to continue negotiations. Moreover, Henderson recommended that the Department suggest to the IBRD that it not recall its representatives, and that it instruct them to try to find some basis for continuing the Tehran discussions. (888.2553/1-352)

that in foreseeable future Iran oil operations cld be restored. After some discussion all of us agreed that it might be good idea for me see PriMin at once and to suggest that so long as Prud'homme and Rieber were in Iran they shld make trip to Abadan and oil field before return to US. I went immed to PriMin and talked with him along these lines. PriMin said he wld like to talk direct with Prud'homme and Rieber without any third person being present. He did not fully trust any one in his entourage. He also said he wld approve trip of Prud'homme and Rieber to Abadan and oil fields and suggested they write him ltr containing request for appt and proposal they take trips south. He said he wld be glad to see them at 10 o'clock morn Jan 5 provided they wld write suggested ltr.

3. I have just had another talk with Prud'homme and Rieber, who have agreed to Mosadeq's suggestions. Prud'homme is sending ltr this afternoon, text of which reads as fols:

> "I wish to acknowledge receipt of ur ltr of Jan 3, 1952 addressed to Mr. Garner, the contents of which have been forwarded to him by telegraph.
>
> I am inclined to believe from exam of ur ltr that it cannot be answered until a considerable amt of study by members and staff of bank has been devoted to some of the questions and comments contained in it, and that therefore some time will elapse before reply can be sent to you. It wld seem to me that it might serve to expedite discussions between bank and Govt of Iran if in meantime Mr. Rieber and I shld visit operations at Abadan and in field for purpose of looking over it so that we may prepare report to bank with respect to it.
>
> In this connection I also wld suggest that it might be useful for Mr. Rieber and myself to have chat with you at ur earliest convenience."

4. Altho Mosadeq has tentatively agreed that Prud'homme and Rieber shld visit South Persia, Dept will recall he sometimes changes his mind and we cannot therefore be sure until after their conv with him Jan 5 that trip will materialize.[3]

5. I sincerely hope bank will not have any objections to course of action which its reps and Emb have decided most desirable. As I indicated in mytel yesterday, Iran is sick country and PriMin is one of its most sick leaders. We cannot consider therefore either

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[3] In telegram 2479, Jan. 5, Henderson reported that Prud'homme and Rieber had had a cordial conversation with Mosadeq, who was anxious for the two IBRD representatives to visit Abadan prior to their projected departure from Tehran on Jan. 13 to discuss the situation with Garner. Prud'homme also made it clear to Mosadeq that he could not expect an immediate reply from Garner to his letter dated Jan. 3. Mosadeq, for his part, emphasized that, as part of an agreement, he had to have dollars in the form of advances secured on oil from the IBRD or aid from the U.S. Government. (888.2553/1–552)

Iran or him as normal and shld exercise maximum amt patience even in face of considerable provocation.

6. Have read this tel and Embtel 2448 Jan 3 to Prud'homme and Rieber who said they hope contents cld be conveyed to Garner.

In no circumstances is anyone other than Dept, except Garner, to know of Emb's connection with these negots.

HENDERSON

No. 140

888.2553/1-552: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET NIACT TEHRAN, January 5, 1952—8 p. m.

2480. . . .

1. We are disturbed at developments which nearly terminated visit here reps Int Bank. Especially disturbing feature is apparent lack understanding on part bank re sitn here. We have gained impression from discussions reps bank that their principals did not realize kind problem which they wld meet in Iran. Reps seemed to have come here with idea they were to deal with persons who might be swayed by representations of logic and reason. They apparently even thought that it might be possible to prevail on Govt Iran for bank to bring in large number Brit oil experts. We gather that during their initial conversations with Mosadeq and other Iran officials they hopefully used same sound arguments and appeals as have been made repeatedly without effect during recent months by whole series of persuaders.[2]

2. We are not critical these two reps. They clearly are able men, qualified to handle themselves creditably in usual and unusual sitns if they know what those sitns are. The manner in which they seem to have been briefed and the basis on which their mission appears to have been founded emphasize, however, the gulf between the type of thinking which they had come out here to express and the realities of the sitn in Iran. We are inclined believe that bank

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[1] Transmitted in two sections and repeated to London.

[2] On Jan. 10 the Department informed Ambassador Henderson that Garner wished Henderson to know that the principles outlined in his letter of Dec. 28, 1951, to Mosadeq were merely a reiteration of the substance of the Bank's discussions with Mosadeq in Washington; that Garner had informed Mosadeq while he had been in Washington that the Bank did not envisage the exclusion of all British personnel from the oil installations; and that Bank representatives had in fact suggested to Mosadeq a division of the proceeds of the sale of Iranian oil. Thus, the Bank had no indication that Mosadeq would object to the conditions which Garner set forth in his letter of Dec. 28. (Telegram 1402; 888.2553/1-552)

has been enveloped by the unrealistic atmosphere . . . still seems to be pervading London. . . .

3. Experiences of bank strengthened our feeling that time may be at hand for US seriously consider whether it can afford much longer to defer to Brit leadership in this area. We agree rift between Brit and ourselves re ME might well result in frustration policies both countries that area and its eventual loss to international communism. We also realize that there is widespread view in UK that continuance Brit leadership in ME is symbol that Brit is still great world power and that forfeiture this leadership to US might strengthen anti-US feeling in UK and throughout empire with perhaps disastrous results to whole free world. Nevertheless, unless Brit display more constructive interest this area it seems to us we cannot much longer ignore fact that they have lost touch with events; that if we allow ME to deteriorate because of our consideration for Brit sensibilities, consequences can be extremely serious.

4. Not necessary in this tel try prove Brit have been systematically misjudging Iran sitn for at least last two years. Research analysis of documents in Dept's files will show that Brit have been stubbornly refusing recognize dynamics sitn here. London still seems of opinion forces of natlism are temporary phenomena which will disappear in due course. There is tendency among Brit officialdom in London to insist their prognosis wld have been correct if US had not upset their plans by attitude from which Iran natlism drew encouragement. They seem to ignore fact that US has gone so far in this endeavor to be loyal to its Brit partner as to create impression in Iran and elsewhere in ME that US is following Brit lead in this area. US may not have openly supported Brit to extent which many Britishers wld have liked. If we had given US all out full support result wld, in our opinion, have been victory not for AIOC, but for internatl communism.

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We suppose Iran will be one of subjects discussed with Churchill[3] and are hopeful that even though this telegram is of superficial character and though it may contain no new ideas, it may serve strengthen resistance to possible pressure on part Churchill that US let UK have free hand in this area, that it at least do nothing of constructive character here unless UK agrees. It would be helpful to free world if Churchill could be brought to understand that even though countries in this area may not be so great and strong as Soviet Russia or Communist China, UK will be making grave error if it takes attitude towards them no less considerate or respectful than it might assume if they were in great power class. Iran like various other countries of ME is in certain respects acting in irresponsible and foolish manner. We do not believe that answer is to heap ridicule or "to let it step [*steep*] in its own oil".

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[3] Prime Minister Churchill and other officials of the British Government, including Foreign Secretary Eden, were in Washington for a series of conversations with their U.S. counterparts, Jan. 5–18. For documentation regarding these talks, see vol. VI, Part 1, pp. 693 ff. Regarding the future course of Anglo-American policy in Iran as discussed in these talks, see Document 142.

We admit it is hard to find just what right answer is but are confident it cannot be found unless we approach problem with at least certain amount of sympathy and great deal of patience. This problem is not one to which standard political or economic formulas or remedies are applicable nor one which we can afford merely to ignore. We sincerely hope that Churchill will be big enough not to permit such considerations as British prestige or profits prevent him from agreeing to reexamination of whole problem with idea of finding new approach, main objective of which would be to start Iran oil flowing to sources where it could be used and to close gap which at present is stretching wider and wider between Iran and free world.

HENDERSON

No. 141

788.5 MSP/1-852

Memorandum by the Acting Assistant Secretary of State for Near Eastern, South Asian, and African Affairs (Berry) to the Secretary of State[1]

TOP SECRET WASHINGTON, January 8, 1952.

Subject: Application to Iran of Section 511(a), Mutual Security Act.[2]

Problem:

To establish the Department's position concerning the letters dated January 8 from the Department of Defense to the Secretary of State and Mr. Harriman[3] asking that the President, after appropriate Congressional consultation, avail himself of his plenary powers under Article II of the Constitution and continue such military assistance to Iran as may be necessary, regardless of Iran's failure to comply with Section 511(a) of the Mutual Security Act.

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[1] Drafted by Rountree and Ferguson. Concurred in by Vigderman, Brown, Nitze, Merchant, and Ohly.

[2] For text of Section 511 of the Mutual Security Act of 1951 (P.L. 82-165, Oct. 10, 1951), see *American Foreign Policy, 1950-1955*, vol. II, pp. 3073-3074.

[3] In both letters, Deputy Secretary of Defense Foster enclosed a proposed draft letter from W. Averell Harriman, Director for Mutual Security, to President Truman suggesting that the President continue military assistance to Iran regardless of Iran's failure to comply with provisions of the Mutual Security Act. (788.5 MSP/1-852)

Background:

In discussions with Ambassador Henderson in Tehran, Prime Minister Mosadeq thus far has categorically refused to give the assurances required under Section 511(a) of the Mutual Security Act in order to permit continuation after January 8 of military aid and economic and technical assistance in support of the military effort. Dr. Mosadeq's refusal to give these assurances in any form appears to have been based upon his reluctance to take a position which might be interpreted as aligning Iran irrevocably with the United States in opposition to the Soviet Union, thus militating against Iran's current efforts to maintain a neutral position in the East-West struggle. An important factor in Dr. Mosadeq's position is that he clearly is not sympathetic towards United States military aid to Iran or the expenditure by Iran of substantial sums of money for the maintenance of its military forces. He has taken the position that what Iran needs is United States financial support and for the United States to agree to buy Iranian oil. His attitude appears to be that the American military missions in Iran and the military aid programs are more for the convenience and advantage of the United States than of Iran.

On the other hand, the Shah and Iranian leaders loyal to the Shah are greatly interested in the continuation of American military aid to that country. The Shah has exerted considerable pressure upon Prime Minister Mosadeq to find a way of meeting the legislative requirements which would prevent any interruption in the military programs. While these efforts may have softened Dr. Mosadeq to some extent, they have not substantially altered his position. In a recent conversation with Ambassador Henderson, Dr. Mosadeq said that he hoped some arrangement might be worked out in further discussions, although the Ambassador in reporting the conversation cautioned that this might have been no more than Persian courtesy.

The position of the Department in the matter of obtaining assurances from Dr. Mosadeq has been to be as lenient as legally possible in implementing the requirements of the legislation. When it became apparent that Section 511(a) assurances could not be obtained in any form before January 8, it was considered in our national interest to devise a formula which would at least permit the continuation of the economic program now being implemented by TCA. It was considered that the necessity of announcing the termination of economic assistance, as well as military assistance, to Iran after January 8 would cause political reactions which might well make it most difficult for the United States to exercise any influence in that country and thus render it impossible for us to obtain our objectives. Accordingly, we proceeded with a plan to obtain from Dr. Mosadeq in some suitable form assurances under Section 511(b) of the legislation which would permit continuation of "simple" economic aid. After difficult negotiations even on this point, Ambassador Henderson was successful in obtaining from Dr. Mosadeq a letter which, although not wholly satisfactory, at least contained assurances that Iran adheres to the principles of the United Nations, those principles including the principles set forth in Section 511(b). An exchange of notes on this basis was accomplished on January 5.[4]

The Department has consulted the Department of Defense at every important stage of the negotiations and has obtained its clearance upon all important telegrams to Ambassador Henderson in this matter. It has been pointed out to Ambassador Henderson that one of our concerns is that the failure of Iran to comply on time with the provisions of Section 511(a) should not result in the withdrawal of our military missions. When it became clear that the assurances would not be forthcoming, Ambassador Henderson was advised that expenses of the military mission in Iran would at least for the time being continue to be paid; that military aid goods which actually had left continental United States ports before January 8 would be delivered; and that Iranian military trainees already in the United States would be permitted to complete their training. It is expected that discussions with Dr. Mosadeq will be continued on an urgent basis in an effort to find a solution to the problem in order to permit the resumption of military shipments at the earliest possible date.

The Department agrees entirely with the Department of Defense upon the importance of maintaining military aid to Iran and of continuing our military missions in that country. There is little question that the necessity for terminating these programs might have very serious consequences in Iran and upon the possibility of United States attaining its objectives there. The only question at issue is how we should proceed in endeavoring to assure that the intransigent position of the Iranian Government does not result in such termination of assistance and the forced withdrawal of the missions.

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[4] Following the exchange of notes between Ambassador Henderson and Prime Minister Mosadeq on Jan. 4 and 5, a Technical Cooperation Administration Agreement was signed and entered into force on Jan. 20. For the texts, see 3 UST (pt. 4) 4741. Materials concerning the negotiation of this TCA agreement are in Department of State files 788.5 MSP and 888.00 TA.

Discussion:

The course suggested by the Department of Defense can best be considered in light of the factors which favor it and those which would argue against it:

Arguments for:

a. Such presidential action would enable the United States to proceed with its military programs in Iran with no interruption.

b. Should our military aid be terminated without immediate prospects of resumption, it is probable that the Mosadeq Government eventually would insist on the termination of all United States military activities in Iran and compel the withdrawal of our missions. In addition to the loss of prestige for the United States, this would leave a military vacuum which would be a very attractive target for Soviet penetration. It would also make it virtually impossible for the United States or any other like-minded power to reenter the picture in the foreseeable future and strengthen Iran's military forces.

c. Without United States military assistance, both in goods and advice, it is difficult to see how Iran can maintain its security forces. Iran for many years has been dependent upon outside sources of supply for virtually all of its military equipment. As a result of the loss of its oil revenues, the Iranian Government is not now in a position to purchase any equipment abroad, and the cutting off of American aid will in the course of time mean a drastic reduction in Iran's armed forces to the point where it is doubtful that they will be able to successfully resist an internal Communist uprising.

d. The termination of American military aid and the consequent eventual withdrawal of the American military missions would be a signal triumph for Prime Minister Mosadeq and a defeat for the Shah in the eyes of a wide segment of the Iranian people. While the Shah has admittedly had very little influence upon the policies of the Mosadeq Government, he has remained in the opinion of most non-fanatical Iranians the only source of leadership and of hope for the future. It is widely known that he is preoccupied with military affairs and has for several years earnestly sought American military assistance. The loss of face involved in the present matter might very well reduce the Shah to little more than a figurehead totally unable to exercise any restraining influence upon the unreasonable policies of the Mosadeq Government.

e. If, in the absence of drastic action, the United States military missions are forced to withdraw the Administration might be criticized for not having taken all measures at its disposal. It would be difficult to prove to the public that waiver of the legislative requirements would not have prevented the situation.

Arguments against:

a. The proposal to make use of the plenary power of the President poses a fundamental, and perhaps novel, constitutional problem, because it involves the use of this power in the face of a specific Congressional prohibition that military aid not be provided unless the requisite assurances have been obtained. It is assumed that on this question the President would seek the advice of the Attorney General. In this regard, the extent of the immediate threat to United States national security is a critical consideration.

b. It is probable that there would be very strong Congressional and public reaction to this step taken in violation of legislation, particularly if it were taken only a day or so before Congress is convened and if the consequences of failure to act were not demonstratively extremely dangerous to the national interest. It would be extremely difficult to explain to the American public why such drastic measures are being taken to permit continuation of assistance to a country which is unwilling to accept the principles set forth in the legislation.

c. The action of the United States in waiving the provisions of the legislation in the case of Iran would be interpreted in Iran as capitulation to Dr. Mosadeq and would be a signal victory for him which, undoubtedly, would increase his obstinacy and the difficulty of dealing with him on all matters.

d. This drastic measure taken by the United States in order to permit the continuation of military assistance and missions in Iran would demonstrate that the United States is willing to go to almost any lengths to retain its missions in that country. This could be expected to be used by unscrupulous Iranian leaders as a means of further blackmailing the United States in relation to many matters. Dr. Mosadeq might well say that if the United States did not come forward with financial assistance, the Iranian economy could not afford to maintain the present level of its armed forces or to meet its share of expenses of foreign advisory groups, and that such groups would, therefore, have to be withdrawn. Similar arguments might be used by him in his efforts to persuade the United States to begin purchases of Iranian oil.

e. There is thus no assurance that the drastic step proposed would in fact result in the maintenance of our military assistance program and military missions in Iran; indeed, as pointed out above, the consequences of such action might be to make it considerably more difficult to maintain the missions in that country.

f. An extraordinary step of this nature, the justification of which would receive very wide publicity, might lead the Iranians to believe that, as charged by the Russians, the United States entertains ambitious military plans in Iran which are being jeopardized. This might lead them to fear that continuation of this situation would provoke Soviet intervention. They might in their alarm, therefore, ask for the cessation of all United States military activities including the advisory missions.

g. A waiver of the legislative requirements in the case of Iran could be expected to have repercussions in other countries participating in the Mutual Security Program. The extension of assurances required under Section 511(a) presents difficulties to a number of countries which would like to find some means of avoiding them. The purposes of the legislation might, therefore, be adversely affected in relation to countries other than Iran.

Conclusion:

It is concluded that, even if it should be determined that the President has the power to pursue the course recommended by the Department of Defense, such course would probably not accomplish the purpose for which it has been recommended and would involve dangers much greater than the immediate advantages which might be achieved.

Recommendations:

It is recommended that in lieu of the course proposed by the Department of Defense, the following constitute the general line of our policy upon this question:

a. That the United States should not appear publicly or in discussions with Dr. Mosadeq to attach such importance to obtaining the required assurances as to give the impression that vital United States interests are involved, and should not pursue tactics which would increase Dr. Mosadeq's intransigence and bargaining power. In this connection, it is suggested that the following line be taken with the press, the precise wording and manner of presentation to be worked out between the Department and DMS:

> "Ambassador Henderson has held discussions during the past few weeks with the Iranian Government concerning American economic and military programs of assistance to Iran, and of the legislative provisions relating to the qualification of countries receiving aid under the Mutual Security legislation. The Iranian Government has already exchanged with Ambassador Henderson notes which make it possible for the United States to continue programs designed to assist in the economic development of Iran. Discussions regarding the military program are continuing and it is hoped that this matter can be worked out in the near future. In the meantime, because of the requirements of the legislation, additional shipments of military goods to Iran will after January 8 be temporarily withheld until the matter can be worked out."

b. That Ambassador Henderson continue to exert every effort to work out the matter with Dr. Mosadeq and that he solicit all appropriate support from the Shah who is sincerely desirous of finding a solution.

c. That the United States be prepared to make considerable concessions in the form and wording of the assurances from Dr. Mosadeq, recognizing that Dr. Mosadeq or any Iranian Prime Minister would in fact have a very real political problem in giving the assurances without making it appear as though he has given up his policy of avoiding any action which might be provocative to the Soviets. In this connection, we have already authorized Ambassador Henderson to accept an arrangement under which Dr. Mosadeq would include in a general verbal statement before the Majlis or elsewhere a review of Iranian policies including a liberal paraphrase of the principles set forth in Section 511(a), provided a transcript of this statement is transmitted to the Ambassador under cover of a letter signed by an appropriate Iranian official associating the statement with the legislative requirements.

d. That, if it appears impossible to obtain compliance within a period of two or three weeks, the Department be prepared to seek some appropriate Congressional action which would waive the provisions of the legislation as they relate to Iran, provided that the circumstances at the time would appear to dictate this exceptional course.

e. That the Secretary, perhaps jointly with Mr. Harriman, arrange as soon as practicable to consult with appropriate Congressional Committees on this entire subject in order that they will be fully aware of the difficult problem with which we are confronted.

f. That, pending clarification of the issue, the effects of terminating military assistance be minimized insofar as possible: Delivery of military goods en route to Iran should be completed; students already in the United States for training should be permitted to continue; and the expenses of the military group in Iran responsible for the assistance program should be met.

No. 142

Conference files, lot 59 D 95, CF 100

Memorandum of a Meeting of the Foreign Ministers of the United States and the United Kingdom at the Department of State, January 9, 1952, 4:30 p. m.[1]

TOP SECRET
TCT CONV-10

PRESENT

U.S.	*U.K.*
Secretary Acheson	Secretary Eden
Mr. Matthews	Ambassador Franks
Ambassador Gifford	Sir Roger Makins
Mr. Perkins	Sir Leslie Rowan
Mr. Nitze	Mr. Burrows
Mr. Berry	Mr. Leishman
Mr. Rountree	

IRAN

The Secretary began by saying that he would like to point out certain current problems which the United States has in Iran. Two American programs are in operation in that country: military aid and technical and economic assistance under the expanded Point IV program. While we are having difficulties regarding both programs, the one involving military aid is most disturbing. Under the military program, we are supplying Iran with equipment which its forces require, and are maintaining in that country Army and *Gendarmérie* Missions engaged in training Iranians. Both aspects of the military program work together. The flow of military equipment makes the Iranians more willing to have our military missions in that country, which are very important from the points of view of maintaining the efficiency of the forces and of their morale. Prime Minister Mosadeq has refused to give assurances which are required by the Mutual Security Act in order to permit continuation of military shipments. The requirements of this legislation, as they apply to Iran, are not wise and increase our difficulties; nevertheless, the assurances are required and because of Dr. Mosadeq's refusal to give them it has been necessary to suspend further military shipments, effective January 8. With the suspension of military assistance, the status of the military missions becomes precarious. Dr. Mosadeq has indicated that he does not want to extend the agreement under which they remain in Iran, and in the absence of such extension they would stay after March 20 only on a day-to-day basis, which is not good from our point of view.

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[1] Prepared for limited distribution by Rountree on Jan. 11. A five-point briefing memorandum dated Jan. 9, prepared by Berry for Secretary Acheson's use in this discussion on Iran, is in Department of State file 888.2553/1-952.

Regarding the economic development program, the Secretary said that we are financing the salaries and expenses of a number of technicians in Iran, and are supplying end items in order to carry out various development projects. Dr. Mosadeq has been persuaded to give the assurances required under the Mutual Security legislation for continuation of the present program, which involves approximately $23,000,000, and it is going ahead. In addition, there has been under discussion with the Iranian Government for some time the extension of a $25,000,000 Export-Import Bank loan, which would not be in free funds but which would be for the purpose of financing materials from the United States for specific development projects. The technical discussions regarding this loan have virtually been completed. We will soon be in a position where we cannot continue to delay conclusion of the contract on technical grounds alone, and any further delay would obviously be upon political grounds. This obviously would create problems. We are now in the process of deciding what action should be taken in connection with this matter. We fully realize the implications of our proceeding, even though the loan would not relieve the immediate financial problems of the Iranian Government and indeed the utilization of the loan would require additional expenditures on the part of the Iranian Government for the internal costs of the projects. Our minds have not been made up on this matter but it may be necessary to render a decision in the near future. Before going ahead, the Secretary said, we will discuss the matter with the British.[2]

Responding to the Secretary's query, Mr. Rountree said that it is expected that only a small portion of the Export-Import Bank loan could in any event be utilized during the next twelve months; perhaps no more than $5 million.

Mr. Eden said that the decision in this and other matters should rest to a considerable extent upon an appreciation of the situation in Iran. He commented that he had received information that Dr. Mosadeq intends going to the Hague Court for the purpose of stating the Iranian position upon the question of the Court's adjudication of the oil issue. This move would prevent the opposition from attacking him until he gets back to Tehran, and he must feel that if he should be successful in the Hague, it would work as well for him as did his appearances before the Security Council. The British Embassy in Tehran had suggested that the British might request postponement of action by the Hague Court in order to prevent this move by Dr. Mosadeq at a time when his opposition in Iran is making itself felt.[3] Mr. Eden continued by saying that the situation in Iran generally does not look as though an early solution can be evolved.

The Secretary said that it appeared as though things in Iran were coming to an early crisis and expressed the opinion that our respective appreciations of the general situation are not far apart. We believe that Mosadeq's opposition is becoming weaker rather than stronger, and potential alternative Prime Ministers have lost considerable prestige. As a result, the Shah himself has become weaker. The main difference in the estimates of the British Embassy in Tehran and of ours is as to the length of time the present situation can continue without internal difficulties of a very serious nature. Ambassador Henderson thinks the time will be sooner than does Middleton, but this is a question of whether it will be 60 days or 120 days, for they both agree that trouble is coming and that is the important thing. Moreover, even if the differences regarding oil should be solved tomorrow, six months or more would be required before Iranian financial problems could be met. The representatives of the IBRD now in Tehran are returning to Washington on January 15 and it is most important that the Bank's precise plan be formulated as soon as possible. The heart of the problem of evolving a solution is the question of price. In general the Bank's proposal is that it would operate the oil industry; oil would be sold by the Bank at a price to be agreed upon, which they are thinking of in terms of $1.75 per barrel; and proceeds from oil sales would be divided with 25 percent going to the Iranian Government, 25 percent to the purchasing organization and 50 percent to the Bank. The latter would use its share to pay operating expenses and would set aside the remainder for subsequent distribution when the questions of compensation and discounts have been settled. The 25 percent to the purchasing organization would in fact be a discount, the balance being divided one-third and two-thirds. The main problem here is that Mosadeq wants to know what happens to that portion retained by the Bank. The Bank can say that it is for final settlement, but Mosadeq would think this is too vague and there would be serious difficulty upon the point. The Secretary then outlined in general terms an alternative solution based in part upon Mosadeq's own suggestion which was made to the British Chargé through an emissary, and in part upon certain statements which Mosadeq made while he was in the United States. The plan would involve an agreement upon compensation, the amount to be determined by representatives of the two parties. Dr. Mosadeq does not want a Board including a third member. Indications are that Mosadeq would accept for compensation a figure of £100,000,000, plus the £42,000,000 now held by AIOC as royalties due the Iranian Government under the unratified supplementary agreement. He would waive counter claims under such a plan, and thus total compensation might be established in the neighborhood of the equivalent of $400,000,000. Mosadeq has suggested that he would agree to pay full compensation in oil before sales are made for the account of the Iranian Government. This would involve the International Bank not only bearing the cost of production in the period during which compensation shipments were made, but the Bank would also be asked to support the Iranian economy during that period. This would impose a very heavy burden upon the Bank, and it is not likely that they could agree. The scheme, however, might be used as a basis for working out something better. For example, sales of oil at an agreed discount price might take place simultaneously with deliveries of free oil as compensation. In this way the revenues could support the cost of operating the industry and provide some funds to the Iranian Government to meet its needs.

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[2] The issue of whether or not this credit should be extended to Iran was left undecided and did not become an active policy matter until December 1952, at which time the United States again considered the question.

[3] Regarding the public hearings before the ICJ and its decision, see Documents 179 and 187.

Mr. Eden said that he had not seen the plan suggested by Dr. Mosadeq's emissary to the British Embassy and was shown, by Mr. Burrows, a copy of a pertinent telegram. Other British representatives present likewise appeared unfamiliar with the communication.

The Secretary commented that our concern is that if the Bank continues upon the basis of its present proposal, and that is rejected, then we are in bad shape. It would be desirable if the Bank could have more flexibility. The present position of the Bank is based primarily upon an interim solution and not a long-range solution, the idea being that if it could get the industry going for a period of two years, the situation might meanwhile change for the better and the chances for future settlement would be enhanced. Mosadeq, however, might not be willing to accept any arrangement under which disposition of a portion of the proceeds from oil sales remains in question. We should, therefore, be thinking about an alternative solution which would establish an amount of compensation and arrangements for running the industry until compensation is paid. It would be necessary, at the same time, to have an agreement upon the discount at which additional quantities of oil are to be sold. An important question is what happens at the end when the compensation has been paid. The Iranian Government would then own the properties and the British would have received the equivalent of $400,000,000. However, with the compensation payments the British could develop additional refining capacity somewhere else where there is a more reliable source of crude oil. Under those circumstances, the question which must be carefully considered is whether Mosadeq would be in a position where he would be able to sell oil at prices which would endanger the established oil industry or whether his position would be weaker by virtue of the increased productive capacity which will have been created. There is a danger that he might seriously prejudice the international oil business. On the other hand, substantial competition would have been built up against him. The alternatives to such a course might likewise present very real dangers, perhaps greater and certainly more imminent ones. The oil concessions throughout the world are in trouble in any event as a result of the situation that has been created in Iran. This whole matter requires very careful study.

Sir Leslie Rowan expressed the view that the essential feature of any deal must be arrangements for the sale of oil. The United Kingdom views the current problem from a much wider point of view than in relation to Iran alone. The 50-50 principle is extremely important and must emerge quite clearly from any settlement; otherwise the entire oil industry is in trouble. There are various ways of evolving a settlement which would meet this principle and he does not know what plan the IBRD has in mind, since it has only established general principles. He felt that the acceptance of the principles is an essential condition to working out a detailed plan; otherwise the plan could do substantial damage on a much broader scale than Iran alone.

The Secretary said that it is very important to keep the discussions with Iran going and not to reach a dead end. The 50-50 principle is important, but in order to say whether the 50-50 principle is valid, one must know within what context it arises. If, for example, Iran had funds in England with which to pay in cash for the oil installations which it had nationalized, the 50-50 principle would have no validity. Since it cannot pay in cash but must pay out of oil resources, an essential point is that there must be effective management under which compensation payments can be assured. Moreover, if the IBRD put substantial sums of money in Iran they must insist upon effective management in order to secure their investment. The question is of what things you talk about at what points. Mosadeq says that he wants to know what happens to that portion of the revenues from oil sales which is held by the Bank. One way of clarifying this position is to inject the element of compensation.

Mr. Nitze commented that there are two ways of approaching the Iranian problem. We could start out with a set of principles and then come down to a specific proposition, which might be quite unsaleable, and would cause grave consequences. Another approach would be to lay aside general principles and to decide what might constitute a practical solution to the difficult problem. That is the approach that we think wise at the moment. The suggestion outlined by the Secretary would involve the payment of $400,000,000 in compensation, plus a continuing discount of, say 25 percent, on oil. This would result in approximately a 40-60 percent division of profits. If the discount must be something less than one representing a 50-50 split of profits, it would certainly not be good; but on the other hand present arrangements in other countries do not uniformly provide for an equal sharing of profits. Indonesia and Venezuela were cited as examples. Even if no arrangement is made with Mosadeq, we are headed for deep trouble elsewhere. It is worth exploring something within the realm of possibility and moving forward upon that, rather than insisting upon general principles which could never be sold to Mosadeq in the absence of a specific proposition.

Mr. Eden stated that, regarding price, he felt the Bank should be permitted to make their proposal and the British could then say whether it would be acceptable.

The Secretary said that the Bank's present plan would make the actual price relatively unimportant. The Bank is endeavoring to find a way to get some portion of the sales prices back to the people who buy the oil, and in doing so they are maintaining the

50-50 principle in several ways. First, 50 percent is held for expenses and final settlement and, second, the remaining 50 percent is again split in half. Under their suggestion of withholding a substantial portion of the proceeds they would confuse the ultimate question of price. The Secretary commented that he entirely endorsed the idea of giving the Bank an adequate chance to develop a plan and to try to sell it, but that we should be considering now what next moves might be made.

Sir Roger Makins commented that if it should become known that we were considering new steps to be taken following any rejection of the Bank's plan, the chances of its rejection would be greatly increased. He said that if a scheme could be developed which would be found satisfactory to the British, that in itself would be compensation and we would not need to be concerned with payments by the Iranian Government.

The Secretary disagreed with this approach and said that what we have been trying to do is to translate compensation into a new scheme for the production and sale of oil, but Mosadeq has made it fairly clear that this will not work. What Mosadeq wants is for the British to be paid off so that at some point he will have completed his obligation in the matter of compensation.

The Secretary continued by saying that if it is not possible for the Bank to sell its plan, we must consider the next step. Garner will undoubtedly ask the British and ourselves what he should do. He will want to know if he should take to Iran with him only the plan which he has developed, and if it fails whether he should come home. If there were unlimited time available in which to work out a solution, he might be advised to do that. However, there is not enough time. The situation in Iran cannot go on indefinitely without incurring the very real danger that a solution will come too late. It is best to have alternates. Garner will certainly want to know whether or not there are other moves which might be made.

Ambassador Franks expressed concern that there is enough difference in the British and American political assessments to make it difficult or impossible for us to come to an agreement upon the precise steps which should be taken. The British believe that whether or not a settlement is made, the result would probably not be a catastrophe. They say, however, that conditions would continue to deteriorate and that some danger would be involved. They know that there are United States interests in Iran as well as British, and that those interests would incur the same risk. The Ambassador commented that in Persia they often encounter serious threats, but they seem never to go over the cliff. They continue on in one way or another. The United States has been more alarmist. The difference between our respective views is largely responsible for our different approaches upon the oil issue. The basic British thinking upon the oil question is that they must keep their hands on all or most of Persia's oil. This is a question of a hard physical asset, and the position is based upon the principle that those who have oil to dispose of have a very great facility, particularly under world conditions as they are today.

The primary condition of any solution is therefore a condition relating to the sale of oil, the Ambassador continued. The outcome must be that the United Kingdom has its hands upon all or most of the oil produced by the Iranian industry. Beyond that the British want to pay for the oil in a manner which is satisfactory to them which means they want to pay for it in sterling since dollar payment would impose an unbearable hardship upon the British economy. Further, the British insist upon paying a price for oil which gives to them as big a profit as is reasonable. In these circumstances, the question of compensation is relatively unimportant. Under any arrangement, the British must be satisfied, however, upon these three essential elements.

Ambassador Franks, continuing, said that the United States is worried over the situation in Iran and in their alarm would shade any possible solution in favor of Iran. They think that the future of Iran is very black indeed and that a sacrifice is worth while in the common cause. The United Kingdom feels more inclined to insist upon the 50–50 principle and upon arrangements which otherwise would do minimum danger to its position. We have been talking about various devices for possible agreement, the Ambassador said. If we could reach substantial agreement upon the situation in Iran, the details of an arrangement upon the oil question could, he was confident, be worked out. He was, however, troubled by the thought that British and American talks upon a solution to the oil question per se would immediately raise the problem of political assessment and this would make it unlikely that we could agree on what kind of settlement should be accepted. He emphasized that the British hold on the oil is something that they are prepared to go a long way to secure. It should be possible, even granting our respective pre-judgments upon the situation in Iran, to agree upon assessment of whether or not the fall of Dr. Mosadeq would present a catastrophe. If it would not, the United States should back the British position to a much greater extent. If, on the other hand, the United States representatives were to persuade the British that the American views more accurately represent the situation, the British should be prepared to yield to the United States position.

The Secretary said that he agreed in large part with what Ambassador Franks had said, but not all. He agreed that the difference is in the political estimate but he was impressed by the fact that the differences between our two embassies in Tehran are not so great. If Iran did not occupy its peculiar geographic location, the problem would be much easier. It is not as though we were dealing with a country remote from the Soviet Union. It is in a bad spot. We could not agree with the latter part of what Ambassador Franks had said. The Secretary emphasized that it is the refining capacity which is of such great importance at the moment since the British have access elsewhere to plenty of oil in its raw stage. By increasing their refining output somewhere else, the British would make it considerably more difficult for Iran to sell its oil, and the question arises as to what would happen to the Iranian industry under those circumstances; whether it would be a maverick which would upset the entire oil business, or would act sensibly in its own interest.

Sir Roger Makins stated that the British are prepared to "play" much longer than we are. The British estimate is that Mosadeq will be compelled to accept a satisfactory arrangement sooner or later. They are perfectly prepared to have the Bank proceed with its efforts, but they do not want to confuse the Bank by considering now some other scheme before the Bank is given the "full run". After two or three months, if the Bank is not successful, something else might be tried.

Mr. Eden inquired concerning our views as to what will happen in Iran in the absence of an oil settlement.

The Secretary said that we do not say that Iran would collapse immediately, but the result would be a gradual weakening of the economy. A series of changes of Government might be expected, which would result in increased influence of the Tudeh party. The Secretary asked Mr. Rountree to comment upon this point.

Mr. Rountree said that our concern does not relate to the future of the Mosadeq Government, as it is quite possible that increased economic pressure might eventually cause its fall. Whether Mosadeq or any other Prime Minister is in power, however, Iran soon will be faced with four alternatives: either they must come to an agreement upon the oil issue, which would permit a resumption of oil revenues through sales to normal customers; obtain financial assistance from the United States in order to prevent the collapse of the economy; sell oil to new customers, which would certainly mean sales to the Iron Curtain countries; or look to the Soviet bloc for economic assistance and a *modus vivendi*. In the absence of an oil settlement or of American economic aid, the Communists in Iran would have powerful arguments of persuasion for turning Iran to the Soviets. This pressure, accompanied by an extremely difficult economic situation, which would soon result in civil servants and the Army going unpaid, could not fail to result in very substantial Tudeh gains and the Tudeh might soon take over one way or another. An immediate problem which arises from the failure of Iran to sell its oil to normal customers or to receive financial aid from the United States is that Iran is considering the sale of oil to Czechoslovakia and Poland. While such sales could be only in small quantities, any would raise the immediate problem of the Battle Act.[4] The necessity of withdrawing American aid as a result of this situation would eliminate any influence that we have in Iran and would make the job of the Tudeh much easier.

Sir Roger Makins commented that the British estimate of this situation would be different, particularly regarding the ability of Iran to sell and have delivered any quantities of oil to the Satellites. He said the main problem here seemed to be our own legislation.

Mr. Rountree said that we did not estimate that there was the capability of delivering large quantities, but delivery of any quantity not only would raise the question of the Battle Act but would establish a trend which might be difficult to stem.

The Secretary said that we of course have no way of knowing that these things will happen, but we feel that there is a real chance that they will happen.

Sir Leslie Rowan commented that while the Americans are uncertain as to what might happen if no arrangement is made, from the British point of view they feel certain what will happen if a bad arrangement is made. The effect on other British arrangements would be catastrophic.

Sir Roger Makins said that the consequences of submitting to blackmail would be grave. Mosadeq has deliberately broken an agreement and the British are determined not to get back at the expense of other external British positions.

The Secretary stated that there is no question that if we have a bad settlement, we will have trouble. The point is that we must find a settlement with which we can live. He then suggested that Mr. Eden might wish to have Sir Roger Makins and other British representatives meet with Messrs. Nitze, Berry, Rountree and other appropriate American officials to discuss this matter in more detail.

Mr. Eden agreed to this and suggested that arrangements be made for such a meeting.

Since Sir Roger will not be available until Tuesday, January 15 tentative plans were made for a meeting on that day.[5]

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[4] See footnote 2, Document 137.

[5] No record of a meeting with Makins on Jan. 15 has been found in Department of State files. However, on Jan. 17, Makins, Christelow, Rickett, and Burrows met with Nitze, Thorp, Berry, Raynor, Rountree, and Ferguson to discuss Iran; see Document 146.

No. 143

788.5 MSP/1-1052

The Director for Mutual Security (Harriman) to the Deputy Secretary of Defense (Foster)

TOP SECRET [WASHINGTON,] January 10, 1952.

MY DEAR MR. FOSTER: I refer to your letters to me and to the Secretary of State, dated January 8, 1952, in which you suggest a proposed course of action by the President designed to deal with the failure of the Iranian Government to give us the assurances required by Section 511(a) of the Mutual Security Act of 1951.[1]

Since the receipt of these letters, further discussions on this subject have been had with representatives of your office and of the Department of State. As a result of these discussions it has been mutually agreed by all agencies concerned that the proposed course of action should not be recommended to the President at this time. Accordingly, I shall not bring the matter to the President's attention.[2]

Sincerely yours,

W. A. HARRIMAN

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[1] See footnote 3, Document 141.

[2] On Jan. 12, Frank C. Nash sent a reply to Harriman informing him that the Department of Defense had taken appropriate action to hold in abeyance further shipments of military aid to Iran in conformity with the provisions of Section 511(a) of the Mutual Security Act of 1951. (GTI files, lot 57 D 529, "Military Aid, 1950–1954")

No. 144

888.2553/1-1252: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET PRIORITY TEHRAN, January 12, 1952—11 p. m.

2598. Prud'homme and Rieber of IBRD plan leave Jan 13 for Paris where they hope meet Garner. In contrast to generally unfriendly tone of Iran press towards bank they reported cordial reception during entire visit and complete satisfaction with trip to oilfields and refinery.

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[1] Repeated to London.

They have indicated briefly and confidentially to us in private conv that their report to IBRD will include fol:

1. Nationalization Iran oil industry is irrevocable.
2. Neither Mosadeq govt nor any govt likely to succeed in foreseeable future will permit AIOC in any guise or Brit techs return Iran.
3. Iran Govt prepared talk compensation but may present counter claims which will equal or exceed Brit claims.
4. Installations at Abadan and in oil fields being maintained in good condition and, with 500 skilled fon technicians under capable management, cld soon be operated at level equal to or greater than maximum production under AIOC. Iran Govt wld oppose any suggestion fon technicians shld be under fon management.
5. Iranians, with little or no fon assistance, capable producing up to 25 million tons annually crude and cld operate refineries, except for new catalytic cracker and lubricating oil plant, to extent permit refining up to 5 million tons year.

From convs with us we obtain impression their conclusions are:

1. IBRD wld find it difficult assist other than in org internatl purchasing company to buy oil for sale to world markets.
2. This wld be possible only if Brit Govt and AIOC wld agree, which agrmt likely only if ques compensation for AIOC property previously settled. Therefore first problem to be settled is compensation.
3. In interest of world peace every effort shld be made save Iran from econ and polit chaos. This calls for recommencing oil revenues thru revival of oil industry at least to extent Persians themselves able operate it.
4. Brit shld be urged not to boycott Iran oil or otherwise obstruct the revival industry.
5. It wld be to disadvantage world oil trade have Iran oil dumped on market. Therefore major oil companies, particularly AIOC, shld cooperate to absorb Iran exports.
6. There shld be no difficult tech problems construct pipelines from oilfields to Caspian.

We are not really surprised at way in which these experts are thinking. Except for ability of Iranians to operate industry with respect to which we have not had tech knowledge to judge their conclusions in gen are not too different from those held by this mission.

Since this info given to us informally in personal conv and as IBRD reps may not incorporate all views expressed in formal report we ask it not be given to bank or to Brits.

HENDERSON

No. 145

888.10/1-1552: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET NIACT TEHRAN, January 15, 1952—6 p. m.

2640. 1. We have been giving much thought to problem of rapidly deteriorating sitn in Iran, particularly in view Mosadeq's statement that unless foreign financial aid recd there will be revolution in Iran within 30 days.[2] We believe Mosadeq now making his greatest gamble. Win all or lose all. He hopes if he can obtain US finan aid he will become even greater nat hero; he will have triumphed again over Brit; barriers which are holding Iran oil away from world market might begin crumble. If no fon aid forthcoming he may be overthrown at last moment by frightened Majlis or as result some kind of coup, or Iran may drift into chaos and disorder out of which may evolve various kinds of regime, most likely one controlled by Sov Union. He is toying with idea by trying persuade Russia come to Iran's assistance in case US and UK stand firm, but is not too hopeful Russia will do so. He realizes Russia has good chance take over Iran without expenditure any resources or funds. Nevertheless, if he shld give up hope receiving immed budgetary aid from US, he might not hesitate, regardless eventual consequences, consummate deal with Russia which might enable his govt carry on for time. He is keeping his eye on opposition which had been making some gains in Majlis and is preparing to meet interpellation scheduled for January 22. His two notes to Brits, one protesting at interference in Iran affairs, and other asking for closing Brit Consulates, were clearly written in order that issue of debates on 22nd wld not be whether his govt is good for country, but whether Majlis wld back him in his new dispute with Brits. In present temper country, opposition not likely dare do anything which might be interpreted as def Brit. Similarly, we believe his attempt to place five day limit on receipt reply re US willingness give finan assis (Embtel 2609, January 14[3]) was based in part on hope he cld annihilate what might be left of opposition on 22nd by announcing US assis at hand.

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[1] Transmitted in three sections and repeated to London.

[2] Reported by Henderson in telegram 2609 from Tehran, Jan. 14, following a talk with Mosadeq on the previous evening. He quoted the Prime Minister as saying: "I am talking with utmost earnestness. I swear before God if Iran does not receive outside financial aid it will collapse and there will be Commie revolution within 30 days." (880.00 TA/1-1452)

[3] See footnote 2 above.

2. We have some hesitation recommending what action US might take at this crucial juncture. We have tried keep Dept informed developments day by day. Dept has understanding US public sentiments, of attitude intnl oil circles, of intricacies of tech oil problems and of position UK which we do not possess. Nevertheless, we venture make certain suggestions herein with idea Dept shld know and be able correct our thinking.

3. We believe risk sitting tight and letting events take their course too great. Mosadeq in his present mood might well prefer chaos and revolution to what he wld consider as capitulation to Brits. His demands have become progressively steeper. He is not likely retreat. On contrary we believe he will rely increasingly on anti-Brit and anti-fon moves in order arouse emotions and to distract public attn from weaknesses in his own govt. In our opinion:

(*a*) He has progressed so far he will not agree to return AIOC or any other Brit oil co to Iran, and is not likely agree permit any fon controlled oil co operate in Iran. He is now firmer than ever before in determination that Iran oil co will operate oil industry and that such fon experts as are needed will be in employ and under direct management that co.

(*b*) He unwilling sell oil at discounts from Persian Gulf prices on scale desired by AIOC and by other oil cos anxious to maintain so-called 50-50 relationships. These discounts we understand about 40 or more percent. Recently he indicated he might be willing accept from prospective buyer discount of 25 percent (Embtel 2601, January 13).[4]

(*c*) He would like have agrmt with Brit re amt compensation. He has made several suggestions this connection and is alleged in private convs to have stated amt shld be determined by direct negots without participation of neutrals (Embtel 2260, December 19).[4]

4. Mosadeq's attitude re oil may be unreasonable. Nevertheless, it is factor to be considered in connection with formulating decision whether or not US shld assist Iran financially just now. It seems to us it wld be extremely difficult in present intnl sitn give financial aid Iran unless that aid shld be accompanied by measures which at least give promise of ending oil deadlock. Furthermore, giving such aid without such promise wld not be likely solve Irans finan problems; it wld merely mean possible postponement crisis. Therefore, our suggestion is that arrangements be made for extension as soon as possible financial aid to Iran in form loan extended thru US Govt, possibly MSA funds or thru Exim Bank, or thru Int Bank, such loan to be at low rate interest and to be paid over long term from oil revenues; that such loan be made only on conditions similar to those outlined in fol para.

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[4] Not printed.

5. Among conditions for extension loan wld be those along fol lines:

(*a*) Iran wld agree sell immed exportable surplus all oil, crude and refined, now in storage, to interested oil co or cos at Persian Gulf prices less 30 percent discount. Ques of purchasers is matter to be arranged by Dept in consultation with Brits and cos themselves. Sale cld be made direct or thru some intermediary, such as bank making loan.

(*b*) Iran wld also sell all addtl oil produced during present calendar yr, up to 15 mil tons, including refined and crude, to same co or cos at same price and discount. Co or cos wld also agree absorb any oil in addition 15 mil tons which Iran may produce during 1952 at same price and discount, but Iran is free sell this addtl oil to any other buyer if it desires.

(*c*) Iran agree establish at once comm composed (say) three reps Iran (say) three reps UK and (say) three neutral reps to determine amt compensation due as result of "nationalization". Such comm, which shld not be limited in its deliberations and findings, must report by (say) Mar 15 its findings re compensation including rate and amt interest payable. Both parties to dispute wld agree to abide by decision comm.

(*d*) Iran wld agree endeavor work out with AIOC equitable method for paying compensation together with interest.

(*e*) 25 percent all proceeds Iran sales abroad of oil, including oil now in storage, wld be deposited with Int Bank or Eximbank to be used for payment compensation. As soon as amt compensation had been determined bank wld turn over to AIOC such funds as may then be deposited with it and wld continue to turn over subsequent funds deposited until all compensation and interest had been paid or until some arrangement had been made between AIOC and Iran otherwise to liquidate compensation.

(*f*) US, UK and [IBRD?] wld do what they cld to persuade intnl oil cos lend Iran experts needed and requested by Iran to work in Iran oil indus.

6. We realize it will not be easy prevail on Mosadeq or Brit accept such arrangements. Furthermore, AIOC and other oil cos may balk. If Mosadeq shld refuse and offer no reasonable alternative it might be difficult give effective help Iran so long as he remains in power and US might be compelled make that clear and at same time prepare for consequences which might include Iran treatment of US similar to that given to Brit, further unrest in Iran, and possibly even loss Iran to free world. Last eventuality unpleasant, but we might find ourselves unable to prevent it without arousing indignation in US and elsewhere which might endanger our present and future aid programs elsewhere or without recourse to arms. If offer so generous publicly made to Mosadeq and refused by him, many elements this part world, including some in Iran, which have been looking with suspicion on West world, might become convinced oil dispute not merely another manifestation

desire West continue exploit weak countries of ME. Brit shld understand they wld be very lucky get as much out of AIOC wreck as this arrangement might give them. If they go into this in right spirit, ignoring unpleasantness of past, they might gradually restore their prestige here. Oil cos shld understand if they refuse cooperate they are running grave risks. They can not afford have Sov satellite on Persian Gulf. Neither wld it be healthful for oil business for such enormous quantities crude oil as Iran apparently can produce without fon aid to be lying alongside wharves available for dumping at any moment. Stockholders of oil cos may not profit as much from Iran oil bought at say $1.22 barrel as from that delivered to them by their own producing orgs at cost of say $1.00 barrel. Nevertheless, they can make fair profit and at same time contribute to world security. There shld be no serious worry about 50–50 formula. Iran not likely make any great profit as result nationalization for some time since its production will have been reduced and it will probably be compelled make payments for compensation and loan for number years.

7. Altho we have tentatively suggested arrangement be in effect during 1952 provision could be made continuance from year to year of purchase at least 15 mil tons until loan and compensation liquidated or until some other satis arrangement could be made for settlement debts and compensation.

8. We are not making suggestions just now re amt loan. That is detail to be worked out if our suggestions seem offer any basis for meeting present sitn. Loan might be made in installments; certain amt to be made at once to tide Iran over for (say) three mos; second installment to be paid (say) about May 1. Also, we are making no suggestions here re method repayment loan. Such repayment could be effected by adding on addtl discounts. If oil in storage could be sold and production resumed immed perhaps relatively small loan would suffice.

9. We realize that even if Dept should try to work out plan along lines suggested it would be extremely difficult to perfect it to such extent as to be able present it in negotiable form to Mosadeq within limited time our disposal. Probably would be nec for matter not only to be refined and cleared with Dept but also with Brit, with appropriate bank, with oil cos, etc. Nevertheless, might be possible accomplish much more rapidly if all parties given understand emergency nature sitn. We could of course offer Iran say $20 mil to tide it over for two mos with statement that we are working on our own plan for at least temporary solution oil prob and that unless Iran can give us full coop in solution this prob we would not be able assist it further after expiration two mo period. One drawback this course would be that if Iran should once get taste Amer

dole its resentment against us would be much greater if that dole should be cut off without any substitute income in sight.

10. We doubt that it would be possible for Dept to make any substantive reply to Mosadeq within five day period indicated by him. Since we cannot dismiss the possibility that he may make some rash irrevocable move if he receives no response whatsoever from us within five day period, we suggest that Dept immed authorize me to inform him SecState had asked me to convey to him personal msg to effect that Dept had been informed by me of Iran's critical finan sitn as outlined to me by PriMin on January 13, was giving matter its urgent consideration, and would endeavor to get reply to him at earliest possible moment.[5]

HENDERSON

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[5] On Jan. 17 the Department instructed Ambassador Henderson to inform Prime Minister Mosadeq that the U.S. Government would be unable to respond to his request for financial assistance as rapidly as he wished. Moreover, the Department did not want Henderson to convey this information to Mosadeq as a personal message from the Secretary of State, because the Department believed Mosadeq might get the mistaken impression that the United States was impressed by his "ultimatum". (Telegram 1448; 888.10/1-1552) Henderson reported on Jan. 18 that he conveyed this message to Mosadeq, who expressed appreciation and said he could wait for several days for a reply; but that, if necessary, he was prepared to take emergency measures to sell oil, even at half price to various prospective buyers, including the Soviet Union. (Telegram 2694; 888.10/1-1852)

No. 146

Editorial Note

After a January 17 meeting on Iran between United States and British officials led by Paul Nitze and Ambassador Makins, the following exchange took place:

"After the meeting, Sir Roger Makins and Mr. Nitze had a private conversation. Mr. Nitze expressed concern that the United States and the United Kingdom had been drifting further apart on the Iranian question during the last few months. He said that if the United States had this responsibility, that fact should be established in order that the United States could conduct itself in a responsible manner. The United Kingdom Government seemed to be becoming convinced that the United States was excessively catastrophic in its appreciation of the Iranian situation. On the other hand the United States Government was becoming convinced that the United Kingdom foresaw no solution for the Iranian situation, had given up hope and had in fact dumped in the United States lap the responsibility for whatever action might have to be taken to prevent Iran from going over to the Communists.

"Sir Roger Makins said that he understood this point. He went on to say that while he did not wish to mention the matter before the other British representatives, the British Government at the request of the Secretary would appoint an outstanding person to deal with the Iranian matter on a continuing basis. He said, however, that the problems involved in selecting the individual and giving him the necessary briefing would involve some delay before he is available to consult with United States representatives." (Memorandum of conversation, January 18; 788.00/1–1752)

No. 147

Truman Library, Truman papers, PSF-Subject file

Memorandum by J. S. Earman, Executive Assistant to the Director of Central Intelligence, to Rear Admiral R. L. Dennison, Naval Aide to the President

TOP SECRET WASHINGTON, 18 January 1952.

The Director of Central Intelligence asks that the attached memorandum be shown to the President.[1]

J. S. EARMAN

[Attachment]

Memorandum by Paul A. Borel, Office of National Estimates, Central Intelligence Agency, to the Director of Central Intelligence (Smith)

TOP SECRET WASHINGTON, 17 January 1952.

Subject: Mosadeq's Demand for Emergency US Aid

On 13 January Premier Mosadeq presented US Ambassador Henderson with a demand for immediate US emergency financial assistance to cover his government's current budgetary deficit of approximately $10 million monthly.[2] Mosadeq asserted that without this assistance "Iran would collapse" within 30 days and the Tudeh would take over the government. Mosadeq added that if US assurances of aid were not given soon (he first mentioned five days), he would be forced to seek Soviet assistance.

Emergency funds now available to the government will almost certainly be exhausted before mid-February. Although Mosadeq could in theory avert a financial crisis for a considerable period after that without foreign assistance, it was to be expected that he would make a strong plea for US emergency aid because: (1) the internal measures necessary to avert a financial crisis would evoke strong political opposition; (2) emergency US aid on his terms would strengthen his political position, particularly against the conservative opposition, and postpone the necessity of his coming to grips with the oil question; and (3) US aid would tide him over until after the scheduled elections when he would be in a stronger position to obtain Majlis support for the fiscal measures required to ease the government's financial position. These considerations, therefore, may have induced Mosadeq to couch his request for US aid in the strongest possible terms in the hope of convincing the US that immediate financial assistance to the Mosadeq regime is the only alternative to Communist control of Iran.

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[1] The following handwritten notation appears on the source text: "I do not think that we should make this advance now. H[arry] S. T[ruman]". The following typed notation also appears on the source text: "1-25-52—President said he talked to the Secy. of State—no letter necessary. Rose A. C[onway]." For the Department of State instructions to Tehran conveying the President's wishes, see Document 152.

[2] See footnote 2, Document 145.

Although Mosadeq may have exaggerated the urgency of the situation confronting him, it is most unlikely that the Mosadeq government will be able to meet its financial obligations beyond the beginning of March unless it adopts effective internal financial measures or unless it receives aid from the US or the USSR.

If denied US aid, Mosadeq almost certainly will press forward with negotiations now under way with Czechoslovakia and Poland for the sale of some two million tons of Iranian oil, and will probably also seek oil deals with other members of the Soviet bloc or with the USSR itself. However, it is unlikely that the Soviet bloc could provide enough tankers to move financially significant quantities of oil from Iran, and thus the sale of oil to the Soviet bloc would probably not provide Mosadeq with a lasting solution of his financial problems. Moreover, although the USSR might be willing to provide Mosadeq with limited advances against future oil deliveries in the hope of scoring a major psychological triumph which would improve Tudeh's chances of ultimately coming to power, we do not consider it likely that the USSR would be willing to give Mosadeq sufficient financial assistance to enable him to stabilize his position.

If Mosadeq fails to get prompt financial assistance from the US or the Soviet bloc, an internal crisis will probably develop rapidly, even if not within the next 30 days. Mosadeq has only an even chance under present conditions of obtaining Majlis authorization for the necessary emergency financial measures and there is an increasingly strong probability that he may not even attempt to do so. He might well postpone such action until conditions have deteriorated to the point where he could no longer control the situation.

We do not believe that such a crisis would result in immediate assumption of power by Tudeh, as Mosadeq has intimated. It is unlikely that the Tudeh will gain enough strength during the next two or three months to take over the government by force. There remains an even chance that the Shah and the conservative elements would take over the government in the event of Mosadeq's downfall in the next month or two as a result of a financial crisis. If the conservatives do not act, however, or if they do not adopt sufficiently strong measures to control civil disturbances, the opportunities for Tudeh seizure of power in parts, or all, of Iran would substantially increase.

Unless Iran's oil revenues are restored, emergency US aid would do little more than postpone a crisis, and the trend toward economic and political deterioration in Iran would continue, even though at a reduced rate. It is unlikely that receipt of US emergency aid would induce Mosadeq to cooperate with other US measures for strengthening Iran economically or militarily. Moreover, such US aid to Mosadeq would not only tend to alienate the British but might discourage the Shah and the conservative opposition, thereby reducing the chances for a more amenable government's coming to power.

Ambassador Henderson has suggested that US emergency aid might be made subject to an oil agreement on terms somewhat more generous to Iran than those previously discussed. Such a solution would require strong pressure being brought to bear on the British, the AIOC, and the other Western oil firms. Moreover, we believe that in view of Mosadeq's increasing obduracy not only on the oil question but toward the UK and the US, there is only a remote chance of obtaining his agreement to a proposal which did not meet all his previously stated demands.

For Assistant Director, National Estimates:
PAUL A. BOREL

No. 148

888.10/1-1852: Telegram

The Chargé in the United Kingdom (Penfield) to the Department of State[1]

TOP SECRET LONDON, January 18, 1952—5 p. m.

3136. Although we have gravest misgivings in principle to extending financial assistance to an apparently irresponsible fanatic who has consistently jeopardized western interests, we nevertheless recognize dilemma which we are facing today in Iran and agree type of approach outlined Tehran's excellent tel 2640 of Jan 15 is worth trying provided conditions outlined para 5, together with suggestions made below, are regarded as acceptable minimum. We wld go even further than para 4 reftel ("aid shld be accompanied by measures which at least give promise ending oil deadlock") and recommend that granting of aid shld be made dependent upon simultaneous resumption flow of oil. We feel this is vital, because if Mosadeq shld get his hands on American money and then welsh on *quid pro quo* we wld be as vulnerable to continued extortion as any other victim of blackmail and in addition it wld be publicly clear that we were yielding to blackmail and subsidizing continued irresponsibility, with resultant disastrous effect on US and British prestige.

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[1] Repeated to Tehran.

Against foregoing background, submit fol specific comments reftel:

1. As Tehran has recognized, this program will undoubtedly be difficult to sell to British, particularly since they wld have to concede points 3a and b, as well as reverse present refusal discuss compensation. National pride being consideration here as well as Iran, difficulty UK making concessions increases with every anti-British move made by Mosadeq. If Mosadeq, as he professes, wants settlement of oil problem with British, has certainly not in recent weeks followed tactics calculated to create desirable atmosphere. If we are to endeavor to sell this program to British, therefore, we must recognize that our difficulties are going to be greatly increased if we have to do it in atmosphere of continued pin pricking and browbeating by Mosadeq. Embassy Tehran shld be in best position suggest how this problem can best be handled with Mosadeq.
2. We do not think that program outlined para 5 reftel can be sold to British on basis 1952 alone and that wld be necessary revise b and e along lines para 7.
3. We do not understand ref to "company or companies" in para 5a and b. It is contemplated companies other than AIOC wld purchase oil at discount and, if so, what justification is offered AIOC or Iran for this procedure?

While we recognize problem posed by time element, we nevertheless consider it essential that any suggestions along these lines be discussed fully and frankly with British before any intimation given to Mosadeq in this connection, we wish point out that from recent conversations we have had with FonOff we gain no impression of any particular alarm re situation in Iran. . . . We therefore suggest we be authorized acquaint British with Tehran's estimate of present financial situation, using in our discretion selected portions Tehran's 2609, Jan 14, and 2633, Jan 15.[2]

PENFIELD

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[2] Regarding telegram 2609, see footnote 2, Document 145. Telegram 2633 is not printed. (888.10/1-1552) The Department responded to telegram 3136 from London on Jan. 19 instructing the Embassy not to initiate discussions in London on the topic of financial aid to Iran, as the subject was being actively considered in Washington with the British. (Telegram 3423; 888.10/1-1552)

No. 149

888.00 TA/1-1952: Telegram

The Ambassador in Iran (Henderson) to the Department of State

TOP SECRET NIACT TEHRAN, January 19, 1952—11 a. m.

2696. Totec. For Bingham from Warne. The Embassy has already described the serious financial situation confronting the Iranian Government and Mosadeq's reaction to this problem (see Embtel 2609, Jan 14[1]). The Prime Minister is insisting upon an answer to his request for budgetary assistance in shorter time than it is practically possible to work out positive response. There is, however, means of alleviating the Iranian problem and giving us three weeks to month more time to develop plan. I suggest that we immediately utilize the authority now available for advancing dollars to the Iranian Government for local currency required for the TCA program in Iran.

We would immediately advance the full $6 million authorized for rial requirements of the program in Iran and simultaneously agree with the Iranian Government for the sale of the dollars for certain imports "essential" to the Iran economy particularly sugar. The rial proceeds of the dollar sales would be deposited to a US Government account with Bank Melli. We could assure the bank and government that our rial requirements over the next eight weeks would be under (say) $500,000 and that the balance could be drawn on by the government as loan from Bank Melli. We would expect our account would be restored in balance prior to time actual requirements for rials occur.

To put this transaction in action would require only advance acceptance of provisions of bilateral agreement already proposed to Mosadeq. He has indicated willingness sign agreement subject certain changes we consider acceptable and have referred to you Embtel 2654, Jan 16.[2]

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[1] See footnote 2, Document 145.

The procedure suggested does not necessarily need to imply commitment for further assistance and it would provide at least partial solution to five important problems:

1. It provides strong incentive for conclusion of basic agreement necessary to initiate TCA program.
2. It affords relief for Iran for an apparent critical sugar situation.
3. It serves a temporary relief for the financial stringencies of the government.
4. It settles the question of providing rials for the TCA program, and
5. It answers the problem of more favorable exchange rate for the TCA program.

Against these advantages the risk we run in advancing the full amount to the government at this time is the loss of the deposit in the event of revolution or complete bankruptcy of Iran.

In such eventualities, the losses we would suffer would far exceed the monetary loss of $6 million.

The suggestion is being advanced primarily because it offers means of meeting difficult situation quickly and without the necessity of additional authorizations or special arrangements. It provides necessary assistance swiftly and inconspicuously. The Dept is therefore given additional time to develop alternative arrangements for longer period and to work out an understanding with the British.

I cannot, however, emphasize too strongly that we must decide and act quickly. Time runs out here. If humanly possible need answers, if favorable on agreement and this proposal inside 24 hours, and also if favorable, similar fast action when requested on allotment advice. We anticipate if your advice on both counts favorable can conclude agreements in one day.[3]

HENDERSON

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[2] Telegram 2654 reported on the negotiation of the TCA agreement that entered into force the next day. (888.00 TA/1-1652) Regarding this agreement, see footnote 4, Document 141.

[3] The Department replied on Jan. 19, informing Henderson that since his latest proposal was an integral part of the larger question of economic aid to Iran, no decision could be made on this matter until a position had been developed regarding the entire issue of economic assistance to Iran. (Telegram 1476; 888.00 TA/1-1952)

No. 150

788.5 MSP/1-1952: Telegram

The Ambassador in Iran (Henderson) to the Department of State

SECRET PRIORITY TEHRAN, January 19, 1952—2 p. m.

2705. 1. During my conversation evening Jan 18, with Mosadeq, I reminded him in previous conv he had said he wld like talk to me further re mil aid.[1] He replied really nothing new say. He had discussed problem several days ago with Gen Zimmerman. He had explained his sitn to Gen as he had to me; that he wld be glad to have US mil aid; that he wld be unable to enter into any commitments or to do anything which wld look like he was entering into commitments in return for such aid; that if US really believed Iran shld have mil aid and desired to give such aid it shld be able find means doing so. Gen had appeared agree with him. (This last remark shld be discounted since Mosadeq has habit assuming and indicating that person who does not enter into detailed argument with him re some point, has accepted his views re that point.) Mosadeq contd that in Iran there is strong feeling that if Iran shld align itself either with Sov bloc or with "free world" its security wld be endangered. He cld therefore take no action which might be interpreted as decision Iran throwing its lot definitely with free world without giving rise to popular indignation which might result overthrow his govt. Wide publicity had been given to 511 (a) in Iran; its provisions were interpreted to mean that any country accepting them was agreeing to join with other members free world in fighting Sov Union in case hostilities between Sov Union and any sector free world shld break out; he, therefore, cld not sign any doc or make any statement which cld be considered as agrmt required under 511 (a) without giving Iran public and Russia impression Iran had entered into mil alliance with US against Russia. Recent newspaper publicity had served to focus attn on problem mil aid. This rendered it still more difficult for him take any action re this matter without it becoming natl issue. Perhaps after discussions had quieted down and atmosphere in Iran had become more receptive, he cld do something. In meantime he hoped US mil aid wld not be suspended.

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[1] On Jan. 14 Ambassador Henderson had reported that in his conversation with Mosadeq on Jan. 13, the Prime Minister emphasized his desire to have American military aid resumed. Henderson replied that he regretted that Mosadeq had been unable to work out some arrangement to make it possible for the United States to consider Iran eligible to receive this assistance under the Mutual Security Act. The conversation concerning military aid then ended. Henderson's assessment was that Mosadeq was unlikely to change his attitude toward giving the necessary assurances to obtain military aid. (Telegram 2610; 788.5 MSP/1-1452)

2. I told Mosadeq we were in no way responsible for articles appearing in Iran press re problem US mil aid. Altho we had been sorely tempted issue press statements giving facts sitn, particularly because so many articles were appearing in press which were unfair and which were attributing base motives to US, we had nevertheless remained silent. I was sure that responsible Iranians acquainted with facts must regret way in which certain sections Iran press were misleading public and defaming US at time when US Govt was merely trying find some way within framework US laws to assist Iran in maintaining its integrity and independence. I then showed Mosadeq clippings from several newspapers, including one from organ of Mojpemi, one of Mosadeq's closest associates. PriMin seemed well acquainted these articles and at first endeavored defend them as being in general accurate. He subsequently admitted they contained number discrepancies but still insisted their gen tenor was fair.

3. Mosadeq and I again discussed ways and means whereby we might contrive to have mil aid continue. He said again that only statement he wld be willing make was that if Iran shld be attacked it wld defend itself to last man. He was quite willing make such statement in Majlis in reply to questions from some Deputy if such statement wld satis US. He wld not however, make any other kind statement. He had already assured us that Iran was supporting principles, UN. It was not necessary to say that Iran was doing what it cld to strengthen its def capabilities since large expenditures from its meager budget for def shld prove that fact without any statement his part.

4. As result this conv I have regretfully come to conclusion it wld serve no useful purpose for us endeavor to persuade Mosadeq to give assurances required under 511 (a), at least until after elections and new Majlis has been convened, or unless some development shld take place which wld change Iran attitude towards Western world, particularly US.

HENDERSON

No. 151

888.10/1-2252: Telegram

The Secretary of State to the Embassy in Iran[1]

TOP SECRET WASHINGTON, January 22, 1952—1:08 p. m.
PRIORITY

1485. Whole range current Iran policy questions receiving Dept's urgent attn. As you know, this subj discussed at top levels during Churchill's visit here, and US-UK working groups continuing mtgs. Fol reflect present US thinking upon several pressing aspects:

Re Mosadeq's request US aid and implied threat turn to Sovs in absence favorable reply, Dept assumes that although econ situation admittedly serious urgency in his mind is directly related to his own polit position especially Majlis interpellation. Briefly, principal arguments favoring US finan assistance at this time considered to be (a) possible use aid as bargaining weapon in connection other aspects problem such as settlement of oil controversy, 511 assurances, mil missions; (b) assurance that Iran economy will not collapse; (c) possible overall improvement Amer position in Iran; (d) avoidance possible reckless and disastrous action on part of Mosadeq.

Arguments opposed this course wld be that aid (a) wld relieve principal pressure now upon IranGov for settlement of oil dispute; (b) wld represent signal victory for Mosadeq and cld be expected weaken effectiveness his opposition and render Shah even more powerless than at present; (c) might be interpreted yielding to extortion and thus increase Mosadeq's obstinacy in dealing with US; (d) wld raise grave problem in our relations with Brit; (e) wld invite criticism US underwriting dispute between fon countries, settlement of which wld substantially reduce aid requirements of both; (f) wld, in yielding to what might be interpreted as extortion, set unfortunate precedent and open door to similar demands by other small countries.

On basis foregoing considerations Dept has concluded favorable response shld in no event be made to Mosadeq before expiration his "ultimatum" period, and without prior consultation with Brit. Moreover Dept believes any such budgetary support must, as you suggest, be associated in some way with oil solution. Until, however, position upon this question has been worked out it obviously is important that Mosadeq not get impression that US has entirely negative attitude. Dept's suggested interim reply to Mosadeq (Deptel 1448 Jan 17)[2] drafted in light these considerations and bearing in mind unwisdom implying too much optimism re final outcome.

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[1] Repeated to London. Drafted by Rountree and Ferguson and cleared with H. Freeman Matthews, Deputy Under Secretary of State; Willard L. Thorp, Assistant Secretary of State for Economic Affairs; G. Hayden Raynor, Director, Office of British Commonwealth and Northern European Affairs: Charles E. Bohlen, Counselor; as well as with Nitze, Merchant, and Ohly.

Dept hopes soon to have more definitive view concerning manner in which budgetary support might be related directly to oil question, and possibility rendering some form budgetary assistance as suggested Embtel 2696. In this case Dept will tele nature of suggested approach to Mosadeq.

FYI, in Wash discussions with Brit principal US objectives have been (a) to impress upon Brit dangers in Iran situation and possibility that continuation of present trend without oil settlement or US finan assistance wld involve imminent danger that Iran will collapse or wittingly turn to Soviets; (b) to point out that Mosadeq's internal polit position appears to be as strong as ever with no indications that he will fall, consequently advisability dealing with him if at all possible; (c) to demonstrate that even if Mosadeq shld fall it is unlikely any successor cld negotiate an agreement which wld be wholly satis from Brit point of view; (d) to make Brit aware that US may feel compelled in near future to take action designed prevent collapse Iran econ in absence successful conclusion oil agreement; (e) to obtain Brit agreement that US and UK reps shld jointly evolve plan which it shld be possible to persuade IranGov to accept, such plan to be used by us in guiding IBRD in proposals it soon will formulate. This connection, plans also must be formulated in case IBRD approach fails; (f) to point out to Brit that while we believe US approaches to Mosadeq shld not indicate great alarm or urgency, we do in fact feel great urgency in finding agreement with Brit upon our respective policies and objectives in Iran.

We have advised Brit that we believe agreement upon compensation probably indispensable part any workable plan, and have suggested possibility that realistic compensation figure might be established contingent upon IranGov agreeing give discounts upon sales of oil. Taken together, compensation and discount might make it possible to work out finan arrangements which wld make commercially feasible Brit agreement purchase oil and wld not have serious adverse effects upon arrangements elsewhere.

In gen, Brit have taken less alarmist view concerning possibilities chaos Iran and continue believe good settlement can eventually be reached if Brit and US both "stand firm". In any event Brit admittedly prepared assume much greater risk in Iran than US. They have stated, however, that they prepared to deal with Mosadeq on any reasonable basis and have agreed to continue joint US-

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[2] See footnote 5, Document 145.

UK discussions on possible solution. Next session sched Jan 23.[3] Minutes of mtgs thus far and statement US position have been air pouched.

Re other aspects current problems, Dept agrees ur estimate (urtel 2705 Jan 19) continued pressure upon Mosadeq to give 511a assurances wld serve no useful purpose. Dept has been considering advisability of discussing with Cong possibility of exception in case of Iran in order permit resumption mil aid programs. We are aware of real polit problems with which Mosadeq presented this connection, and our judgment wld be that any IranGov wld find it difficult under present circumstances to comply with legis. On other hand the difficulties involved in granting an exception to only one country are obvious, the least of which wld not be the danger of adverse Cong and public reaction in US. Dept wld, therefore, appreciate ur advice whether we shld let present situation continue for time being or whether any such special course shld be pursued, bearing in mind advisability of US not showing undue concern over continuation Amer aid to Iran.

Dept most appreciative ur thorough reports and thoughtful analyses as well as manner in which you have handled Mosadeq. We agree risk sitting tight and letting events take their course is too great and we are discussing policies to be followed in light this consideration.

ACHESON

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[3] No record of such a meeting has been found in Department of State files.

No. 152

888.10/1-2652: Telegram

The Secretary of State to the Embassy in Iran[1]

TOP SECRET WASHINGTON, January 26, 1952—12:28 p. m.
PRIORITY NIACT

1526. Dept has continued discussions with Brit and IBRD concerning possible plans for interim or long-range solution oil problem, although as yet no definitive position has been formulated concerning proposition which might be put up by Bank to Mosadeq. It is hoped that Bank proposal, prepared in light of report by Rieber and Prud'homme, will be available in near future; however, there is no assurance considerable delay can be avoided.

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[1] Repeated to London. Drafted by Ferguson and Rountree, who also signed it for transmission.

Assuming, therefore, that reply to Mosadeq's request for budgetary support must be made in near future, it will be possible to assoc such reply with settlement of oil issue only in gen terms rather than in relation to some specific proposition. For reasons stated Deptel 3455[2] Dept believes purely negative reply might have very serious repercussions and shld be avoided. On other hand, it is clear that undertaking to render budgetary support in the form requested by Mosadeq cannot be given except as integral part larger proposition on oil issue.

Dept has been considering measures that can be taken short of affirmative response to Mosadeq's request which will "buy time" necessary to arrive at an agreement with Brit and Bank upon type of settlement which shld be proposed to Mosadeq. Warne's suggestion contained in Embtel 2696 has certain appealing features, although the disadvantages of its acceptance lead Dept to believe this course shld not be followed. Principal disadvantages are: (a) it wld entail certain legal complications which wld render it desirable at least to consult with Cong leaders; (b) it wld risk later endangering finan ability mission to meet local costs of TCA program; (c) it wld give Mosadeq opportunity make polit capital by announcing arrangement as US decision to provide budgetary support for IranGov; (d) it wld lead to complications with Brit at moment we are endeavoring to convince them of need for new approach; (e) arrangement probably wld in fact be only of limited value in relieving budgetary problem. Dept has, therefore, concluded that decision upon this recommendation shld at least be deferred for the time being and that alternative shld be explored.

It occurs to Dept problem might best be met through device further drawing on IMF by IranGov. As you may know Irans are considering making such a request and Mosadeq when in Cairo requested Saad, Egyptian Director IMF who reps Iran, informally to sound out opinion Fund members. US rep has indicated to Egyptian US wld oppose any such request on technical grounds. US Director IMF communicated this view to Saad in fol words: "US hopes Irans will not put in request for Fund drawing at this time; and if they do so, I regret that US wld not be able to support drawing. Reason for this position is that second drawing by Iran wld gravely embarrass US in relation to current policy respecting drawings. Other members who are in no position to draw on Fund under existing policy and who are eager to draw now, wld cite second Iran drawing as means of obtaining additional drawings for themselves." On Jan 22 Saad transmitted this view verbatim to Mosadeq. At same time Saad raised with US Director possibility of

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[2] Printed as telegram 1485, *supra*.

Fund drawing with pledge of gold collateral, such collateral to be deposited in one of four Fund depositories. In same msg to Mosadeq, Saad asked whether IranGov wld wish to pledge gold against a Fund drawing, saying that this wld not prevent Iran from continuing to regard such gold as part of its currency cover if that was not inconsistent with Iran law. Up to time of his departure Jan 25 Saad had not recd reply from Mosadeq and presumably will rec reply in Cairo. US Director did not give firm reply to Saad's question respecting US attitude on gold secured drawing, but did say that he was inclined to believe that difficulties mentioned in above quotation of US views wld largely be met by gold collateral. If Iran decides to pledge gold, Dept's view is that US wld find it very difficult to object to drawing even if we wished to do so, and US Director concurs.

Such IMF drawing wld have many advantages. Additional resources wld be provided promptly in effective form for use by IranGov at any time it wished. Pressure by Mosadeq upon US to provide US assistance might thus be postponed with minimum adverse polit consequences of our denying his request. Moreover, it is hoped that matter cld be arranged in manner so that US cld reap some credit vis-à-vis Mosadeq even though transaction wld not in fact be as between US per se and Iran. It is therefore suggested that if you concur you pursue fol gen line in conversation with Mosadeq:

1. US sincerely desirous of being in a position to render necessary and proper assistance to Iran and is fully aware of difficult finan problems with which Iran soon will be confronted. Dept is giving careful consideration to this matter in the light of Iran needs and of the realities of present situation.

2. PriMin will understand difficulties of position in which US finds itself. Settlement of the oil dispute in a manner acceptable to both parties, which is entirely possible, wld have considerable bearing upon need for finan assistance. For USGov to seek from Cong funds for purposes indicated by the PriMin without oil settlement in sight wld inevitably be interpreted as pursuing course of action which wld merely perpetuate fundamental problem, i.e. non-settlement of oil controversy. PriMin shld not interpret this consideration to mean the US at this pt is taking sides in oil controversy or is supporting any particular plan or plans for settlement which may have been made in the past.

3. US earnestly hopes IBRD soon will present to Iran and BritGovs suggestion for settlement, at least on an interim basis, which will make possible immed resumption of oil revenues to IranGov. While US does not know what proposals will be put forward, it is convinced that Bank will deal with matter on an entirely fair and reasonable basis. We are confident that such proposals will be recd by Brit and IranGovs with open minds and on realistic basis, and that they will do everything in their power to seize this opportuni-

ty to relieve the very considerable burden which has been placed upon both of them as result of shutdown of Iran oil industry.

4. We know finan problems with which IranGov is confronted may become acute before there has been adequate time for IBRD to put forth its proposals and for the respective govts to consider them, although we hope there will be as little delay as possible upon proposals. It wld appear to us that resources available to IranGov shld be sufficient to last considerably longer than indicated by PriMin. However, there is no doubt free funds are limited, and we wld like to do what we can under the circumstances and pending a more definitive response to PriMin's request for US finan aid. US believes that most rapid and effective form of funds from fon sources, pending settlement of oil issues, wld be through further gold secured drawing by IranGov from IMF.

5. Saad, Egyptian Director IMF has had informal conversations with US reps concerning possibility of further Iran Fund drawing. You might confirm US position on further unsecured drawing, as quoted above. We understand, however, that Saad has suggested to PriMin possibility of gold collateral for second drawing, and that he has pointed out that such collateral might be put up without affecting its status as note cover. If IranGov informs Saad that it is disposed pursue this course and application is made to IMF, US anticipates being able to support Saad's recommendation. (You shld emphasize that PriMin's channel shld continue to be through Saad.)

6. With provision of these additional resources it shld not be necessary for PriMin to consider, as he suggested in his earlier conversations, extraordinary measures such as sale of Iran oil to Sov Bloc. Indeed, he must realize that any such sales at this time wld enormously complicate entire problem not only in relation to reasonable settlement but, in view of Battle Act, the extension by US of econ assistance. We are convinced it wld not be in the interest of Iran to pursue any such course as indicated by PriMin. Finan position of the Gov wld, after the IMF drawing, be such as to provide opportunity to work out arrangements which wld provide lasting benefits. This opportunity shld not be jeopardized by undertaking arrangements which cld at best have only short-term finan advantages with possibly disastrous ultimate consequences.

If you perceive objections foregoing tele comments niact.

ACHESON

No. 153

888.10/1-2952: Telegram

The Ambassador in Iran (Henderson) to the Department of State

TOP SECRET PRIORITY TEHRAN, January 29, 1952—4 p. m.

2848. No distribution except to S/S and NEA and G.

1. I called on Mosadeq this morn in order discuss with him Dept's reply as incorporated in Deptel 1526 Jan 26 to his request for fin aid. I told him that US Govt had been giving careful consideration to his request; that it was hopeful that International Bank cld find some way solving both oil problem and Iran's fin problem; that it was reluctant approach Cong leaders at this particular time with suggestion that funds appropriated for econ and mil aid be diverted to fin aid for Iran because it believed that suggestions for fin aid for Iran, unaccompanied by some indication that oil problem was on way to solution wld not be well recd. I told PriMin that in order he shld understand clearly Dept's position and certain suggestions which Dept had to offer I wld read to him fol summary. I then read this summary set forth below sentence by sentence, so that it cld be discussed as we went thru it:

"US Govt thoroughly understands present Iran fin difficulties and worries and is anxious to find some way to be of assistance. At present not only the officials of US Govt, but many Amers interested in fon affairs and sympathetic to Iran are placing great hope in the International Bank as the instrument to break the deadlock in the oil dispute and to help Iran to attain secure fin position. When the US Govt persuaded Cong to appropriate funds which are at present at its disposal for fon aid, it had not contemplated that they wld be used for budgetary assistance purposes. The US Govt, therefore, cld not divert these funds for such use without first consulting Cong leaders.

"The US Govt is convinced it wld be inopportune to raise this matter with Cong leaders. These leaders wld be sure to object on the ground that Iran has rich resources in its oil which, if exploited, shld make loans this kind unnecessary that it shld be possible to find some way advantageous to all parties concerned to bring about a resumption of Iran oil production and exploitation; that until it becomes clear that it is useless to continue to search for this way US funds appropriated for the purpose of extending mil and econ aid shld not be used to replace revenue which shld and can be obtained from oil; and that the International Bank at present is doing its best to work out some plan which wld make it possible for Iran to begin almost immed to receive revenues from its oil. The US Govt realizes that Iran may require additional funds from some outside source before any International Bank scheme cld be perfected, accepted, and put into practice. It understands Saad had suggested to the PriMin that perhaps Iran cld make additional drawing against the IMF, using note cover gold as collateral. If Iran shld find that its laws permitted such a transaction and if it shld apply for additional drawing with gold as collateral, it is belief of Dept of State that the US and most other interested countries wld support application. Iran might, therefore, obtain funds from the IMF which wld enable it to carry on at least until the International Bank scheme had been given a chance. The reply as to whether or not Iran wld be in position to apply for additional drawing under such conditions shld be made direct to Saad. It wld be helpful, however, if Amb Henderson cld be informed re the nature of the reply so that he can inform the US Govt whether or not Iran will have sufficient funds to take care of its minimum needs for the next few months."

2. Mosadeq expressed considerable disappointment in receiving such negative reply. He said he and his advisers had already given consideration to Saad's suggestion that gold serving as cover for Iran currency be pledged with IMF as security against further withdrawals that fund. Decision was that (a) it would be illegal for this gold to be pledged without specific authorization from Majlis which it was impossible at this time to obtain (b) it did not appear to be sound financial practice to have same gold serve as security for bank notes and for loan from IMF, and (c) if it shld become known that this gold being used as security for loan confidence in Iran currency would drop and value of currency would decline with disastrous speed. He added that he did not place much hope in International Bank intervention. He did not believe Brits would permit International Bank to propose any plan other than one which would enable Brits to regain their political and economic strangle hold over Iran. Furthermore, even if bank did make proposal which could be acceptable to Iran Govt and public opinion, such proposal could not possibly be put into effect in time to save Iran from financial collapse towards which it was heading so rapidly. He hoped therefore that US Govt could devise some way giving Iran necessary financial assistance immediately.

3. PriMin thereupon extricated from his bedside envelope addressed to President Truman which he handed to me with request that I read its contents. Envelope contained letter from PriMin to President renewing request made on Nov 9, 1951[1] for financial aid. After I had read letter PriMin asked if I had any comments, I said I thought letter might have been more effective if less of it had been devoted to attacks upon Brits. PriMin said he was writing to President exactly as he felt. He hoped I would send contents letter to President if possible by telegram since every day financial situation was becoming more desperate. Text this letter being sent Dept in telegram 2849, Jan 29[2] and original being forwarded thru Dept under cover despatch.[3] In response my inquiry PriMin said he hoped text as well as existence letter could be kept secret; otherwise it might in certain circumstances be used as propaganda material by Commies.

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[1] See footnote 4, Document 126.

[2] Not printed. (888.2553/1–2952)

[3] The original text of Mosadeq's letter to President Truman was forwarded to Washington in despatch 859 from Tehran, Jan. 29. (888.10/1–2952)

4. Before leaving PriMin I told him I was sure US Govt was concerned re Iran financial position and hoped to find some way to help Iran extricate itself. I again emphasized that in my opinion problem of US Govt was that as Congressional leaders as well as US public opinion were convinced that US financial assistance to Iran would be merely temporary palliative unless oil flow could be restored and that therefore any financial assistance which might be extended Iran by US should be in connection with some move which gave promise of termination of oil dispute deadlock. Mosadeq said that he was afraid that Brits would never retreat from their present position so long as they were able to maintain international blockade against Iran oil. Only hope therefore for breaking deadlock was for other countries to begin to buy Iran oil. Iran was not begging for gifts; it was merely asking one of its friends for loan. If US desired it would be quite willing turn over to US in return for financial assistance all oil which it now possessed at 50 percent discount. I told PriMin if US should begin buy Iran oil such prospects as still existed for settlement of Iran-Brit oil dispute would rapidly disappear. I was confident therefore that US wld not in present circumstances buy any Iran oil. I said although by nature I was pessimist I nevertheless still had hope that International Bank would be able to come forward with some kind scheme which would eventually be acceptable to Iran and to UK.

HENDERSON

No. 154

888.2553/2-652: Telegram

The Secretary of State to the Embassy in the United Kingdom[1]

SECRET PRIORITY WASHINGTON, February 6, 1952—7:15 p. m.

3726. Brit Emb relayed fol msg Feb 1 from Eden to Secy:

"Mr. Eden recalls that Mr. Acheson agreed during talks at time of PriMin's visit[2] that Internatl Bank's plan for interim arrangement on Persian oil shld be fully tried out. Mr. Eden hopes Mr. Acheson will agree to Bank's reps flying to Tehran at once in order put their plan to Persians. He suggests State Dept's alternative ideas cld be discussed subsequently. He feels it essential that Bank's reps shld lose no time in putting their plan to Persians."

Pls transmit fol reply from Secy to Eden:

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[1] Repeated to Tehran. Drafted by Rountree and Ferguson and signed by Secretary Acheson.

[2] See footnote 3, Document 140.

"I appreciate ur msg of Feb 1. I know that we are equally anxious that the fullest possible advantage be taken of the opportunity which the Internatl Bank has to put forth proposals to the IranGov for settlement of the oil controversy, at least on an interim basis. I therefore concur fully with ur view that the Bank's reps shld proceed to Tehran as soon as possible to resume their discussions with PriMin Mosadeq.

The Internatl Bank provides the only presently apparent channel for accomplishing an agreement with the IranGov, and I know that you will agree that it shld be given the best possible chance of success. I am most concerned over the possibility that the Bank delegation may proceed with a proposal which will not have sufficient flexibility. Reps of the Dept of State are having continuing discussions with Mr. Gass of AIOC and members of BritEmb in Wash, the details of which I am sure have been brought to ur attn. They have expressed to these Brit reps the view that the Internatl Bank delegation shld be in a position to discuss possible alternatives to or modifications in the proposal which the Bank has already formulated and with which I know you are familiar.

While other features of the Bank's proposal appear to be sound and conducive to successful negot, it is believed that the position re management is likely to render the plan unacceptable to the Irans unless some modifications can be discussed. I cannot help but believe that if the Bank must inflexibly maintain its position on this question it will in all probability cease to be a useful instrument and the likelihood of an early settlement will thus be reduced. This in turn wld seriously aggravate the already critical situation in Iran and wld increase the chances of the loss of that country to the free world.

The Dept's reps have therefore suggested to their Brit colleagues that serious consideration be given to the possibility of permitting a greater degree of flexibility in the offer which the Bank's reps will place before Dr. Mosadeq. This wld not necessarily involve a prior commitment of the BritGov, but the Bank's negotiators shld be in a position to explore all possibilities of a satisfactory solution. This shld not only permit continued negots but shld also prevent an aggravation of the situation such as wld mark an outright rejection by Iran of the present proposal.

It has also been suggested to the Brit reps that, in the event no progress can be made on an interim solution, the Bank be authorized to explore the possibility of a single purchase of the existing stocks at Abadan at a 50 percent discount. It shld be possible to develop arrangements for such a purchase which wld not prejudice AIOC's legal position. The purchase might provide the time necessary to develop another approach involving a long-term settlement.

It wld be helpful if our respective reps cld begin to exchange ideas on a possible long-term solution to cover the contingency that a satisfactory interim settlement is not negotiable.

In any event we shall attempt through our ambassador in Tehran to impress upon Mosadeq the importance we attach to a successful outcome of the negots with the Bank's reps."

For Tehran only: Substance Dept's conversations with Brit referred to above will be subj later tel.[3]

ACHESON

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[3] Reference is to telegram 1623 to Tehran, not printed. (888.2553/2-152)

No. 155

641.88/2-752 Telegram

The Secretary of State to the Embassy in Iran[1]

SECRET PRIORITY WASHINGTON, February 7, 1952—1:35 p. m.

1624. Fol is summary memo of conversation Feb 1 between Dept and Brit Reps re Iran polit situation (Deptel 1623 Feb 6 [*7*][2]).

Reps recognized that views of two Embs in Tehran now closer than in past but difference of opinion remains re real danger of communism in Iran.

US view as fols:

In absence solution oil problem and fon budgetary aid, Mosadeq probably will endeavor sell oil to Sov bloc or seek assistance another form which wld be obtained from that quarter on terms involving great risk loss of Iran to West. Even if he did not turn to USSR, Iran financial crisis cld lead to weakening authority IranGov and polit confusion conducive to estab Commie or Commie-dominated regime.

Altho Mosadeq request for financial aid before middle Feb might be designed scare US into giving assistance, it showed he is genuinely worried by difficulties ahead. With completion Tehran elections[3] he may not be as greatly influenced by internal polit considerations as is case now and he might therefore be less rigid discussing oil settlement.

If oil settlement reached Mosadeq cld be expected channel nationalist fervor in other directions. Since Commies will fight settlement satis to West and Tudeh can be made principal target for Nationalists, it is likely Mosadeq wld take increasingly firm action vs Tudeh. He may also embark program social and econ reform to keep popular support and appropriate for himself portions Tudeh program having greatest appeal.

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[1] Repeated to London. Drafted by Helen P. Gray of the Office of Greek, Turkish, and Iranian Affairs and Ferguson, and approved by Rountree.

[2] Not printed. (888.2553/2-152)

[3] The Tehran elections to the 17th Majlis were scheduled to be completed in mid-February.

If oil settlement contrary wishes Natl Front leadership is forced on Iran, it is likely main focus nationalist fervor wld continue centered around oil problem.

UK view as fols:

Mosadeq wants US and UK think he about to turn to USSR thus frightening US into giving financial assistance and UK into capitulating to his demands in oil dispute. In practice not easy for him turn to Sov Union as Irans traditionally afraid of Russia and if given free choice wld still prefer retain connection with West. Mosadeq has lulled traditional Iran fears of Russia by following neutral policy but they wld be revived by any move in his part toward Sov Union.

Although Mosadeq not likely turn toward Russia it is highly improbable he will do anything check communism in Iran since his ideas of polit tolerance, neutrality, and fear of offending USSR wld prevent his taking action vs Tudeh regardless outcome oil question and request US financial assistance. Continuation Mosadeq in office, therefore, presents greatest danger communism.

Serious financial difficulties facing Mosadeq might not lead to acute crisis since critical situations frequently run long time in Iran without sudden deterioration.

Discussion this Brit group continuing. Understand they communicating Middleton re Brit Emb appraisal certain aspects foregoing, and estimate Tudeh strength and tactics which have been discussed by Dept on basis Deptel 1523 Jan 25.[4]

We have also discussed tactics to be followed re IBRD proposal which are subj separate tel.[5]

ACHESON

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[4] In telegram 1523 the Department instructed the Embassy in Tehran to provide answers to a list of questions to enable the Department to ascertain as accurately as possible the true extent of the Communist threat in Iran. (788.00/1-2552)

[5] Presumably reference is to telegram 1623 to Tehran, Feb. 7. (888.2553/2-152)

No. 156

888.2553/1-2952: Telegram

The Secretary of State to the Embassy in Iran[1]

SECRET PRIORITY WASHINGTON, February 9, 1952—1:53 p. m.

1648. It wld appear desirable reply Mosadeq's ltr Jan 29 to Pres before beginning Garner's discussions with Iran Govt. Aside from question of undue delay in responding to PriMin reply now might influence his attitude in negots. Pres has approved fol reply to Mosadeq (urtel 2849 Jan 29[2]) which you are requested to deliver unless you perceive overriding objections. In latter event tel comments soonest.

"I have rec ur Excellency's ltr of Jan 29, 1952 concerning the desire of the Iran Govt for a loan from the US to relieve the pressing finan situation in which the Iran Govt finds itself at the present time.

In my reply of Nov 14 to ur earlier communication on this subj, I stated, as you have recalled in ur present ltr, that ur request wld be given most careful consideration in the light of the well-known desire of the US to be of assistance to the people of Iran. I need not reiterate to ur Excellency that the US wishes to be in a position to render Iran all proper and necessary assistance.

As you know, Mr. Robert Garner, Vice Pres of the Interntl Bank for Reconstruction and Development, is proceeding to Tehran accompanied by a group of experts from his org to discuss with you suggestions for an arrangement which wld permit resumption of the operation of Iran's oil industry. I attach the greatest importance to Mr. Garner's mission, and I am confident that you and he will be able to agree upon some workable formula. The Bank is an internatl org whose sole interest in this matter is to be helpful in finding a solution to the controversy which has brought a great industry to a complete halt.

Shld it be possible with the Bank's assistance to find at least an interim solution, Iran wld have the resources necessary to overcome the present finan difficulties. I am sure that you will understand that the exec branch of the USGovt cld not justify to the Cong nor to the Amer people a loan of the nature which you have requested at a time when Iran has an opportunity of obtaining oil revenues of a very great magnitude.

I wish to assure you, Mr. PriMin, that the US remains committed to its well-known policy of desiring to see a free, stable and prosperous Iran, and that it will take every measure it properly can to carry out this policy. Iran needs will always be given the most careful study in keeping with the desire of the US to see its Iran friends on the road to a stable and prosperous economy."

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[1] Repeated to London. Drafted by Rountree and Ferguson; signed by Rountree after approval by President Truman; and cleared with Secretary Acheson, Matthews, Linder, Raynor, Nitze, and Berry of NEA.

[2] Telegram 2849 transmitted the text of Mosadeq's Jan. 29 letter. (888.2553/1-2952)

In delivering foregoing msg to Mosadeq, you may in ur discretion pt out that US is presently bearing a heavy finan burden throughout the world in its efforts to build a stable and lasting peace, and it wld be most difficult to undertake additional commitments for finan loans to country which has immediate means of helping itself. Sentence to this effect has been omitted from President's msg since its inclusion wld tend to make denial of Mosadeq's request more categoric than perhaps wld be desirable at present time.

FYI we do not intend publishing exchange.

ACHESON

No. 157

888.2553/2-1152: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET PRIORITY TEHRAN, February 11, 1952—6 p. m.

3031. Distribution limited to S/S, G and NEA.

1. I delivered this morning Mosadeq note dtd today containing Pres msg set forth Deptel 1648, Feb 9.

2. Mosadeq read msg several times, asked if I had any comment. I explained US was bearing heavy finan burden throughout world in effort discourage aggression and create stable lasting peace. US Government would face bitter opposition in Cong and from Amer people in genl if it shld undertake increase this burden by extending loans to country like Iran which had it in its power to help itself. I said US Govt placing much hope on success negots about to take place between Int Bank and Iran. Success these negots shld not only solve Iran's present finan difficulties but wld result in greater polit and econ stability whole ME.

3. Mosadeq said that in mid-Jan he had told me that without fon finan aid Iran cld not carry on for longer than one month. At that time he was determined, come what might, not to spend dols recd from Int Monetary Fund which were being held to meet emergencies. He had later been persuaded to spend these dols to meet Iran's current obligations and was doing so. They wld be exhausted within next few days and govt wld still not have sufficient funds to

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[1] A handwritten note on the source text indicates that this telegram was repeated to London on Feb. 13.

pay currently due salaries and outstanding bills for services and supplies. In such sitn he cld not with peace of mind enter into negots with Int Bank. He therefore intended in first conversation with Garner to ask bank advance to Iran Govt at once 20 to 30 million dols to enable it to continue to function while negots proceeded. He invited my comment.

4. I said I cld not speak for Int Bank and cld not of course become involved in negots. I doubted however that Int Bank in spite of its good will for Iran wld be able make such advance. Int Bank was commercial organ. Its loans must have sound finan and commercial basis. I believed it wld be difficult in framework its charter for it to advance loan in Iran's present finan position unless it had some kind assurances Iran wld be able repay.

5. Mosadeq then asked if there was any possibility that US Govt cld make such loan to tide Iran over period negots. I replied in negative. I added I had impression that such possibility had already been considered in Wash but it had been decided that neither US Cong or public opinion wld view with favor extension such loan at time when negots were about to begin between bank and Iran Govt. It did not seem necessary these negots shld be protracted. If they shld be successful, bank might be able lend funds immed and if for some reason bank cld not advance funds immed, in spite success negots, it might be easier for US Govt to be of assistance. Mosadeq said he thought he now had better [garble] where he stood. It looked as though there was concerted attempt to put him in such position that he wld have no choice except to agree to such proposals as bank might make or to see Iran go bankrupt. He wld not be so disturbed at this choice if he thought [garble] agent, able to discuss Iran's oil problem purely on mass merits. He was quite well aware however that bank cld not make or accept any proposals unless they were agreeable to Brit. Brit had not retreated so far as he cld see from their original position. Such concessions as they seemed to have made were merely in form not in substance. Brit were hoping thru finan pressure to force Iran to accept their wishes. Unfortunately, they also seemed to have been able to prevail on US Govt and Int Bank understand Iran wld not surrender to finan pressure. He wld never permit it to be said that he, as PriMin of Iran, had sold his country out. He might be able go on another month without fon finan help if he spent everything his govt had right to spend. US Govt wld be held responsible by Iran and by whole world for what might happen to Iran after that month. Anyone who had been following elections cld see that at present struggle for power in country was between Natl Front and Tudeh grps. Former pro-Brit elements are now entirely out of run-

ning. If Natl Front govt shld pass out existence only confusion or Tudeh wld take over.

6. I told PriMin he was misinterpreting reasons for US Govt's inability advance him finan aid just now. It was not participating in any scheme to subj him to pressure. US Govt, like Iran Govt, had its own public opinion and legislators to face. As I had already pointed out, neither US public opinion nor Cong wld be likely to view with favor granting of loan to country which had it in its power to obtain funds almost immed from its own resources. I hoped PriMin wld bear in mind in dealing with Int Bank he was negotiating not with opponents but with friends who really were trying to help him and help Iran. He shld also not forget that Bank was finan and commercial, not polit institution. I had no idea what kind proposals wld be made to him but I was confident they wld be based on sound commercial, rather than on polit, considerations. He shld receive them in that light, bearing in mind that in spite of polit atmosphere enveloping oil dispute, operation of oil industry was primarily a business proposition and shld be treated as such.

7. Mosadeq said if Garner shld refuse his request for immed loan he wld continue pursue negots but wld feel himself handicapped. What, in my opinion, shld he do if he finds bank's suggestions to him unacceptable? I said in first place I hoped he wld not find such to be case, but if he did he might make counter-proposals and try find some kind of mtg ground. He asked what wld happen if his counter-proposals were unacceptable to bank? I said it seemed logical to me that thru further negots attempt shld be made to find some scheme that wld be acceptable to all interested parties. He said he was no merchant and cld not haggle. If his counter-suggestions shld be unacceptable, negots wld break down. What then?

8. I said it seemed to me he was trying to ascertain whether in case negots shld break down US Govt might be willing to give finan aid to Iran until some other way cld be worked out for settling oil dispute. He said that was precisely what he was trying to do. I told him I unable give categorical answer. My opinion was it wld be extremely difficult for US Govt in face US public opinion to give finan aid to Iran if US public shld believe that Iran had deliberately turned down fair and reasonable proposals made to it by Int Bank for resumption operation oil industry. I did not know what Amer public opinion wld consider reasonable and fair. I thought however that most Amers wld be inclined believe that Int Bank wld not try impose on Irans sole Iran oil problem which wld be reasonable [*unreasonable*] or unfair to Iran. US Govt therefore viewed coming negots with considerable anxiety since it believed that outcome might have profound effect on future Iran and on world peace.

9. PriMin expressed apprec for frankness of conv; said he wished assure me he intended show tremendous amount patience during course coming negots. He hoped however US Govt wld understand there was limit beyond which neither he nor any responsible Iran spokesman cld make concessions.

HENDERSON

No. 158

888.2553/2–1252 Telegram

The Secretary of State to the Embassy in Iran[1]

SECRET WASHINGTON, February 12, 1952—6:25 p. m.

1661. Fol is substance Eden's reply Feb 12 to Secy's ltr Feb 8:[2]

"Am particularly glad we are in full agreement Internatl Bank shld be given every chance working out satis proposals with IranGov for interim settlement. Garner goes Tehran with good wishes all of us here and we have every confidence he will play hand in accordance gen principles which in my view must be safeguarded in any settlement Persian dispute.

Am sure will be most beneficial if you can bring home to Musaddiq importance you attach to successful outcome Garner's negots. Nothing cld be more helpful than clear indication you and we are agreed on this pt. May be Garner will not be able come to satis arrangement at once. That event it not my idea negots shld be allowed break down, and I imagine Garner wld merely withdraw in order consider further steps he cld usefully take, having first tried establish Musaddiq's minimum terms and whether he has advanced at all from orig positions. Speaking generally, Bank shld take time and try get some firm reaction from Musaddiq in response their own proposals. We wld naturally consider any suggestion Garner might then wish make us with utmost seriousness. There would of course as you say, be no prior commitment on part HMG.

I appreciate ur pt Bank shld have greatest possible flexibility in developing their proposals. We have sought tie Bank's hands over question management. Same time I think Bank's reps bound realise how essential it is that any arrangement which postulates coop commercial co shld provide for really efficient management. Any commercial undertaking required to purchase, carry and distribute oil must be assured oil forthcoming of right quality, in right quantity, at right time. This just as important in interim arrangement as in final settlement, and if management arrangements not efficient in interim scheme there will be even less chance their being efficient under final arrangements. We of course assume, and Bank agree, no arrangements for interim settlement will be offered which wld prejudice our case before Hague Court.

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[1] Repeated to London. Drafted and signed by Rountree.

[2] Transmitted in Document 154.

I think I shld tell you we were not happy about suggestion Bank might be authorised explore possibility purchasing existing stocks Abadan at 50 percent discount. This wld surely mean that AIOC who have already paid for existing stocks in production and refining costs, wld be asked pay again for oil Persian Govt have expropriated. It wld also be quite inconsistent with warnings we have issued to prospective purchasers Persian oil. In fact removal of existing stocks wld make it so much easier for such illegal purchases of oil to take place.

I do hope you do not feel we are approaching question from narrow viewpt. I am keen as you to reach satis settlement and remove dangers which will remain so long question unresolved, but we bound consider effects bad settlement, one which appeared reward illegal expropriation, wld have not only on other oil interests, Brit and Amer, but on fon investments generally throughout world. I feel I cannot stress too strongly gravity these effects on financial position of UK.

I entirely agree ur suggestion our respective reps shld begin exchange ideas on possible long-term solution if satis interim settlement cannot be negotiated. I expect you have heard I asked Oliver Franks to see whether Paul Nitze cld not come over for talks with us here.[3] This wld, I am sure, be of greatest possible value in paving way to common action if Bank's efforts shld in end come to nothing."

In oral discussions Brit reaction US suggestions, Brit reps emphasized view that IranGov shld not get impression proposals other than those put forward by Garner are being considered, believing this wld enhance Garner's difficulties in dealing with Mosadeq. Brit also extremely anxious that US pt out to Mosadeq great importance which it attached Garner's mission. Without reference to verbal response Mosadeq's request for aid or Pres's written reply transmitted Tehran Feb 9,[4] Dept assured Brit US had impressed this upon Mosadeq.

In these discussions Brit agreed Garner shld, within framework present Bank plan, have maximum flexibility in negot tactics with Mosadeq, and stated that if Mosadeq unwilling accept Bank proposals, Garner shld not completely break off negots but shld get Mosadeq's ideas to determine if he has advanced in any way. They hope that even though Mosadeq might not accept Bank plan he will put up counterproposals or indicate some flexibility, in which case matter cld be reconsidered upon Garner's return, which shld be arranged in way to leave door open for continuation negots.

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[3] On Feb. 12 the Department cabled the Embassies in London and Tehran that the British representatives in Washington had informed the Department of their government's desire to begin talks in London as soon as possible to formulate the elements of a final oil settlement if the interim proposals which Garner was going to present to Mosadeq should be refused. The Department thought this suggestion had great merit and, therefore, Nitze and Linder were departing for London that day. (Telegram 3835 to London, repeated to Tehran as 1658; 888.2553/2-1252)

[4] See Document 156.

Brit reps state that Brit position will be communicated to Garner discreetly through Brit Emb Tehran.

ACHESON

No. 159

888.2553/2-1752 Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET NIACT TEHRAN, February 17, 1952—2 p. m.

3137. Fol is text *aide-mémoire* handed Mosadeq by Garner as informal basis for discussion (Embtel 3123, Feb 16, rptd London 680):[2]

"This is confidential *aide-mémoire* which will not be made public.

"The Iran Govt reserves its position with respect to employment of Brit natls in oil operations in Iran. View of this reservation, Internatl Bank must reserve its position as to possibility of being able work out any arrangement in respect of such operations.

"Fol points are noted, subject to above reservations as representing an informal summary of understanding between Iran and Bank mission as possible basis for an interim arrangement for resumption large-scale oil operations in south Iran.

1. It is understood that Bank wld act as neutral intermediary and only at request and with authorization of interested parties.
2. Arrangement wld be without prejudice to legal rights of anyone.
3. The Bank wld on an interim nonprofit basis, manage and operate south Iran oil properties and sell oil produced therefrom.
4. Sale and distribution of oil within Iran wld be Iran's responsibility.
5. Bank wld, as part of interim arrangement, contract with buyer for sale of all export oil, on terms approved by Iran.

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[1] Repeated to London.

[2] Ambassador Henderson reported on Feb. 16 that Garner and his delegation had had several meetings with various Iranian officials, including Mosadeq, and that the Bank representatives had prepared an *aide-memoire* setting forth, in general terms, the Bank's proposals for Iranian consideration. Henderson also informed the Department that at the session that morning, Feb. 16, with Mosadeq, several members of the Iranian Senate became involved in the discussion and had emphasized their desire to the IBRD representatives that perhaps they could assist in achieving a solution to the oil controversy. Garner had agreed and was therefore intending to remain in Tehran until Feb. 19 in the hope that he could make more progress in the negotiations. Thereafter, he planned to fly to London to report his progress to the British. (Telegram 3123; 888.2553/2-1652)

6. Oil operations wld be conducted by Bank thru management headed by top exec grp, to be selected by Bank, from countries not party to dispute, and to be responsible to Bank. Iran wld give Bank full and independent authority to carry on oil operations and employ necessary personnel.

7. Number of non-Irans employed wld be kept to minimum consistent with efficient operations. Bank wld not be expected to employ any personnel, in excess of those needed for efficient operations.

8. Bank wld limit activities to production, refining, and delivery of oil and necessary supporting services, such as power and water. Other associated services, formerly administered at expense of oil operations, wld be carried on by Iran and their cost, up to an agreed limit, wld be charged to oil operations.

9. It wld be understood that Bank's assets wld not be subject to risk in carrying on oil operations, and appropriate provisions wld be made therefore.

10. Bank wld undertake to see that necessary funds are provided for resumption of oil operations, including working capital.

11. Proceeds from sale of oil wld be used first to pay cost of operations (including interest and amortization payments on acct of funds provided) and of remainder, a previously agreed part wld be paid Iran and rest wld be held by Bank until settlement of differences between parties.

12. Arrangement wld be for period about two years (in absence of an earlier final settlement) but provision wld be made for its continuance thereafter subject termination by any party. Bank wld have right terminate arrangement at any time.

HENDERSON

No. 160

888[illegible] Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET NIACT TEHRAN, February 18, 1952—1 p. m.

3147. IBRD discussions continued throughout Sunday both in subcomite and with larger grp including Mosadeq.

Memo (Embtel 3137 Feb 17) agreed upon in subcomite with exception point one which bank agreed to drop. Mosadeq did not specifically comit himself but was generally understood memo acceptable to Iran Govt. Conversations largely devoted to question of price.

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[1] Repeated to London for Linder and to Lisbon for the Secretary of State, who was scheduled to arrive in Lisbon for the Ninth Session of the North Atlantic Council Feb. 20–25, 1952. Acheson concurrently held a number of Foreign Ministers meetings in Lisbon through Feb. 26. For documentation regarding these meetings, see vol. v, Part 1, pp. 107 ff.

Bank del explained at great length its reasons for believing 33⅓ percent discount which wld give Iran 50 cents a barrel excluding 37 cents to be placed in escrow represented best deal Irans cld expect at present. Bank said it was not necessarily committed to these figures and was willing to consider any counter proposals. These Mosadeq consistently refused to make. Garner tells us he pleaded with Mosadeq to set a figure Irans thought fair with only reply being that Iran wld insist on posted price of $1.75 at a discount they wld not specify.

Conversations while friendly were marked by several rather sharp exchanges particularly between Rieber and Hassibi such as Rieber's remark "I like Mr. Hassibi, I consider him good friend of mine and an intelligently and patriotic Iran, I think his ideas are all cock-eyed and I have been trying to beat some sense into his . . . head for past six weeks". This sort of exchange Irans took in good part and negotiating techniques of Garner and Rieber while unquestionably novel to Irans seem to have had favorable effect.

Question necessity return Brit techs raised frequently by Garner with, we gather, no appreciable progress. In this connection Ferguson has gained impression Bank del not in complete agmt and there is some thought among members of del that Garner has unduly emphasized this point. In summary I feel progress has been made since:

1. Irans have no objection to managerial control by IBRD.
2. While Irans obviously most unhappy re price proposed by Bank they have not so far refused it and seem to be heading in direction of instructing Bank to get best obtainable price.
3. Reluctant admission by Irans that Bank must take into acct interest of Brit which at outset of conversations they denied existed.
4. Clear desire on part of Irans to make every effort find solution through intervention case.
5. Attitude Mosadeq who appears at moment willing to let Senators carry burden of negots possibly to allow them to assume polit onus for unpopular settlement.

On other hand fol unfavorable factors still exist:

1. Question Brit techs. No progress has been made this point and there is some feeling that Garner has been overly insistent on it.
2. Lack of definite assurance Mosadeq will be bound by any agmts reached by his subordinates and/or Senators.
3. Reluctance Irans commit themselves on specific details.

4. Negotiating inexperience of Garner who possibly may be interpreting customary Iran courtesy to mean they are more agreeable to his proposals than in fact is the case.[2]

Henderson

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[2] On Feb 18 Ambassador Henderson reported that, in that morning's discussions, Mosadeq had agreed to sign the *aide-memoire* which Garner presented the previous day. On the issue of oil pricing, however, Henderson reported that no progress had been made, and that Garner was not optimistic that he could achieve an understanding concerning this matter. (Telegram 3162, 888.2553/2-1852)

No. 161

888.2553/2-1852: Telegram

The Ambassador in the United Kingdom (Gifford) to the Embassy in Iran[1]

SECRET LONDON, February 18, 1952—8 p. m.

174. From Nitze [and] Linder. FonOff called us in this morning to express their concern about Garner's planned departure. They feared (a) if he left Senate forces might lose impetus. (b) That if and when he returned in characteristic Iranian fashion negots wld start from the beginning rather than from where they left off. Probably underlying UK position was fear that with Garner's departure no further progress could be made, while Irans awaited Brit further concessions.

We took line Garner was essentially honest broker who had to be judge of when he had exhausted all possibilities at this stage of negots. Moreover Irans were entitled expect that Garner wld now endeavor do his best with Brit otherwise Iran suspicion that Garner really Brit agent wld in their eyes be confirmed. Also Garner's duties in bank made it impossible for him to be away too long a period.

Brit accepted our position and as result have discussed their msg to Middleton with us which we understand will make fol points:

(I) Garner is not breaking off negots.

(II) He has a much clearer understanding of the views of the Persian Govt.

(III) He is hopeful that the bank may be able to arrange an interim settlement.

(IV) He must now also find out the views of HMG in a similar way.

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[1] Repeated to the Department as telegram 3583, which is the source text.

(V) He is leaving a part of his mission behind to maintain contact with the Persian Govt until he returns to continue discussions.

(VI) Since he wishes to respect the confidence of the Persian Govt and similarly the confidence of HMG, he is unable to disclose any details of the proposals under discussion, and he believes that any such disclosure wld not be in the best interests of all concerned.

To these we assented with clear understanding, however, that your judgment shld be substituted for ours in respect of desirability of any or all of this and of course that since this was Garner's announcement we cld not do more than advise. We recognize that most important points are already agreed namely (I) above and that Garner leave in friendly spirit with initiative his, as to when he returns.

GIFFORD

No. 162

888.2553/2–1952: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET PRIORITY TEHRAN, February 19, 1952—7 p. m.

3179. Garner has just described at some length most recent conversations with Irans including last night's long discussion on price question.

In discussing price, Irans are still under spell of Hassibi and unwilling view matter at all realistically. When pressed to make counterproposal Irans said their price \$1.40 a barrel for crude and US Gulf price less 25 percent discount for products. We understand Irans calculations of US Gulf price, however, does not coincide with those usually accepted. While as one member of Iran negotiators remarked in aside to Garner "prices this high represent oriental bargaining", Irans attitude such as to leave little hope they wld agree to reasonable figure during Garner's stay here.

Although Emb agrees Hassibi is disruptive influence in all oil negots and is able to befuddle other Irans by his apparent profound knowledge of facts and figures of oil industry, we do not believe Irans wld be able accept bank offer on price as it stands even were Hassibi removed from picture. Profound emotional current runs through Iran thinking on this as on other aspects of problem and we are convinced there must be some gesture made to Irans in connection with refinery before they will agree on price. Garner has not given Irans any indication he has any flexibility on this point but he has indicated to us that he believes something cld be done and we understand he will pursue this point with Brit. He has also withheld as later bargaining instrument possibility Irans may be able to sell 10 percent crude A/O products at posted prices outside that sold to AIOC.

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[1] Also sent to London for Linder and Nitze as telegram 704 and unnumbered to Lisbon for the Secretary of State.

No further progress made on question return Brit technicians. Several Irans not sympathetic to Mosadeq and with little influence on him have expressed belief that if top positions filled by neutrals there wld be little public reaction to return numbers subordinate Brit personnel. I personally am inclined to doubt this although I believe it might be possible reintroduce some Brit technicians in gradual stages over period of months. While Garner believes that it might presumably be possible for bank to operate on such basis, he takes view there is no assurance that this wld be the case and bank wld be assuming unwarranted risk in committing itself to run such a vast and complicated industry without knowing in advance it will be able to recruit whomever it needs.

Memo of understanding discussed by Cab this afternoon and Garner is at moment with Mosadeq supposedly for purpose of signing it. Irans informed him this noon that they had made a few "minor" changes and if this is case Garner says he will sign it. If, however, as is possible they have made substantive changes, it will probably have to be renegotiated.

Joint press release still not ready. As prepared by Garner and Irans in advance of receipt London's (174, Feb 18) it included in somewhat different language most if not all points made by Brit.

HENDERSON

No. 163

888.2553/2-2352: Telegram

The Ambassador in the United Kingdom (Gifford) to the Secretary of State, at Lisbon[1]

SECRET NIACT LONDON, February 23, 1952—1 p. m.

156. For Secretary from Nitze and Linder. Re your 101,[2] Garner yesterday reported to Ministers on course negotiations Iran.[3] He

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[1] Repeated to the Department as telegram 3663, which is the source text, and to Tehran.

[2] Not found in Department of State files.

[3] The minutes of this meeting are in file 888.2553 AIOC/2-2652.

felt it wisest to make factual report without suggesting any course of action. It was felt that Ministers wld think about the matter and talk with Garner again next week.

Prud'homme reports that Ministers' questions indicated they primarily interested in questions of right and wrong between Iranians and company and little in the way of constructive approach as to what might be done in light of realistic appraisal of situation apparent.

From discussions with company, evident they will fight hard against (1) any arrangement which does not provide for prompt return substantial numbers of their personnel, (2) provisions they think commercially unattractive. They have not yet accepted fact that whatever they get is net gain from their present position.

From Garner's report, evident that major hurdles to successful interim arrangement are following points.

(a) Return of British technicians. Prud'homme doubts anything beyond recognition of principle of non-discrimination, but no more than token British participation possible at this time and even that dubious.

(b) Price. Prud'homme believes key to the question purchase of refined products at a discount from world market prices rather than having refining done at cost plus a fee.

(c) Iranian desire for inclusion of language indicating bank operating "on behalf of Iranians". British worried about effect such language on Hague Court position. We inclined believe British over emphasize importance Court action assuming ideal consummated. However, we believe Garner and British right that Iranian language shld not be accepted in an interim arrangement.

(d) Garner's report that Iranians view interim arrangement as being two year deal only at the end of which period they propose to operate property wholly by themselves. British had viewed interim arrangement as giving opportunity for conclusion final and continuing settlement under more favorable conditions.

We have impression British dubious much progress toward satisfactory interim settlement was in fact made. We inclined to view that our original estimate that long term settlement along lines our original suggestion sounder from British standpoint and perhaps more negotiable than interim settlement. Probably necessary, however, to have one more go at interim settlement on basis such increase in negotiating flexibility as British prepared to give, in order to put responsibility for failure of interim negotiations on Iranians rather than British.

We still believe, in spite of intervention Senators, that real political power in hands of National Front and that chances of strong regime more favorable oriented British remote.

We suggest it might be helpful include following points among those made to Eden.

(a) Let's get on with realistic consideration of what shld be done next.

(b) We feel initiative in coming up with realistic plan of action shld be on British.

(c) We not impressed with all of arguments re commercial feasability yet advanced by company and believe that to put through program taking account of political realities, government, particularly Foreign Office, may have to exercise strong leadership.

(d) They might seriously explore whether something along lines our long term suggestion might not be possible. We not sure such a program negotiable but important concerted UK-US action we satisfied no reasonable course left unexplored.

In case Eden asks about our position re financial aid, line we have taken here is: (a) that it wld be helpful if we in position to say we cld make temporary but prompt financial aid available, if satisfactory deal is made, to tide Iran over period until oil really flows; (b) that if Iran turns down best deal which we, in light total British position, consider best they can offer, we see no possibility that we cld give financial aid; (c) in event we and British cannot agree on best deal which can be put forward we must reserve our position.

Henderson advised that Middleton showed telegram from Eden to Foreign Office repeated Tehran stating UK must now develop constructive approach "despite our experts".

Barnes has copies earlier meeting[4] with British of which meeting Ministers most important. Nitze returning Washington tonight.

GIFFORD

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[4] Reference is to a meeting which Garner held at the British Foreign Office on Feb. 21. The minutes of this meeting are in file 888.2553 AIOC/2-2652.

No. 164

788.00/2-2852: Telegram

The Ambassador in Iran (Henderson) to the Embassy in the United Kingdom[1]

SECRET PRIORITY TEHRAN, February 28, 1952.

733. Supplementing Embtels 685 and 690 Feb 17,[2] Emb has made fol appraisal strength Natl Front.

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[1] Transmitted in two sections; repeated to the Department as telegram 3284, which is the source text.

[2] In these two telegrams, repeated to the Department as 3135 and 3140, respectively, the Embassy in Tehran outlined possible courses of future action open to Mosadeq if the International Bank approach to the oil controversy failed. (788.00/2-1752)

In chronically disordered Iran polit sitn, group of ambitious politicians exploiting appeal of nationalism, organized Natl Front around wily old master, Dr. Mosadeq, and rode oil nationalization issue to power. Resultant govt unique in Iran politics, since it bases its popular appeal upon polit principle of nationalism. Natl Front also typifies local tradition of clique united by mutual self-interest.

At same time there are disruptive forces at work within Natl Front which since Mosadeq assumed power have twice threatened unity largely thru personal dissensions. First rift caused by disputes over division of spoils and influence after coalition became govt. Majlis deputy Azad broke with front on this. Maki and Kashani, as well as Iran Party Group in front, showed their dissatisfaction thru maneuvers at time. Said no open Natl Front dissension came during Mosadeq trip to US in autumn 1951. Maki was irritated not being member Mosadeq Party on trip, and he and Haerizadeh publicly criticized several PriMin's intimates, calling them Brit agents. Kashani was also rumored to have joined anti-Mosadeq intrigues. These signs of questioning Mosadeq leadership encourage Majlis opposition. Mosadeq's masterly parliamentary and polit strategy on return routed opponents and seemingly again solidified position.

Currently there is talk of dissension among Mosadeq, Maki and Kashani. This is believed to stem from increase in popular dissatisfaction with govt arising primarily from deteriorating finan sitn but is also connected with efforts Kashani faction to secure disproportionate govt support for its candidates in elections.

Given element of individualism, which is traditional disruptive force in Iran politics, it seems apparent that Natl Front coalition is unstable and shld not be expected to endure indefinitely. However, we believe coalition can survive internal frictions and rivalries so long as Mosadeq, Maki, and Kashani, three outstanding personalities in govt, continue their association. At this juncture there appears no convincing evidence that coalition, which serves mutual self-interest these leaders so well, may be upset thru open detection by any one of them. It wld appear that now it is not to advantage of anyone of three openly to break with his colleagues.

Three factors or developments, singly or in combination, aside from internal personal rivalries, might eventually cause coalition breakdown. These are:

(1) Loss of hope securing sizeable oil revenues or fon budgetary aid.
(2) Continued finan deterioration.
(3) Domestic polit action sparked by Shah.

(1) We doubt whether continuance oil negots with IBRD will produce Natl Front schism, especially since Joint Oil Comm, including Senators, intervened and have assumed partial responsibility for this intervention. Natl Front may be in for serious trouble, however, if it becomes clear to public that there is no real hope of settling oil impasse thru IBRD or other internatl proposed solution, or of selling oil in large quantities. PriMin may be expected conceal fact so long as possible, if this shld develop. As last resort he may make certain number private oil sales, while suggesting he may make more, to keep alive impression Iran can withstand stalemate in oil negots. This, similarly, might for time longer forestall difficulties within Natl Front between extremists who wld oppose any reasonable provisional or permanent oil arrangement, and moderates pressing Mosadeq be realistic and accept proposals which, though perhaps not all Iran desires, wld revive sizeable oil industry.

(2) While there is insidious disintegration throughout Iran in various social and polit fields as result deterioration finan sit, there is still imponderable factor of improvisation and extraordinary measures which govt may be able to take to permit continued payment state salaries. All govt finan resources will reportedly be expended by Noruz (Mar 21). However it is not inconceivable govt wld resort to stop-gap measures, such as nibbling at gold coined currency, securing cash advances from possible private oil sales (mentioned in (1) above), and further tapping pension and other special funds. Such measures might be sufficient to continue salary payments for addl month or two. Hence, imminent break-down state administration because lack funds pay salaries might not have to be faced by Natl Front leaders.

(3) Shah will not willingly change from habitual vacillation or drop his policy of awaiting play other forces which might painlessly dispose Mosadeq Govt without his intervention. Senate, also, which is talked of as presently possible means of overthrowing Mosadeq constitutionally, not likely to move except most reluctantly and after strongest prodding. Senate may hesitate until it receives clear indication from Shah of his full and open support before it wld vote nonconfidence in govt. Forces working for success this move in near future appear indecisive.

Natl Front position weaker than 2 months ago we had thought it wld be. However, survey of factors and developments above described induce conclusion for near future, say 2 months, dissolution Natl Front Govt improbably. We believe govt may continue for this period even though it may become apparent there will be no early resumption substantial oil revenues and no budgetary aid from abroad.

HENDERSON

No. 165

888.2553/2-2952 Telegram

The Ambassador in the United Kingdom (Gifford) to the Department of State[1]

SECRET LONDON, February 29, 1952—6 p. m.

3766. Garner saw Eden last evening and again at lunch today and has had further discussions with AIOC. Status his understanding with UK at present is:

1. General. Brit will give bank considerable flexibility next week's convs with Irans without making definite commitments at this point. If arrangement can be worked out with Iran, Prud'homme will then tell them he will see how much he can sell to Brit.
2. Technicians. Brit will not insist agreement contain provisions specifying return Brit personnel and Prud'homme will, if necessary, be able to tell Irans Brit not adamant on this point but bank however still must insist its hands not be tied. Brit have indicated they will leave question technicians in Garner's hands.
3. Operating auth. Brit agreeable Irans making own statement bank operating on their behalf, possibly in reply to written communications from bank outlining areas of agreement. Garner, however, believes this question is unimportant and will fall into place if other questions are settled.
4. Price. FonOff and AIOC will discuss with Prud'homme over weekend possibility offering Irans price on basis products rather than crude. Ross of FonOff indicated this noon to Linder and Ferguson in strictest confidence UK probably will make this concession but will ask bank not to mention it to Irans except as last resort. Garner prefers going back to Irans with offer of price based on crude plus some fee for refinery operations in form tax, etc. but doubts Irans will accept this.
5. Legal position. UK Govt reps admit insistence on maintaining legal rights may have little practical value but hesitate abandon their position without being certain receiving acceptable settlement in exchange. In view this attitude UK not so far willing consider compensation either in connection present convs or as suggested by Middleton.

Garner has urged Brit time opportune for some gesture friendship toward Iran in effort eliminate their suspicions Brit attempting regain former position thru intermediary of bank. He has suggested ltr to Mosadeq from Churchill as appropriate but has not recd particularly enthusiastic reaction from Brit. In general, altho number of specific points still not definitely settled, Garner believes he has recd sufficient flexibility from Brit to leave room for some hope and believes Prud'homme will return Tehran with sufficient latitude find further areas of agreement. He realizes negots on this basis will necessarily be protracted but he does not think this is undesirable since it will give moderate elements in Iran opportunity keep pressure on Mosadeq to reach agreement with bank.

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[1] Repeated to Tehran.

GIFFORD

No. 166

888.2553/3-552 Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET PRIORITY TEHRAN, March 5, 1952—6 p. m.

3377. For Rountree for Garner IBRD from Prud'homme.

"Arrived yesterday. Met Mosadeq today with only Clark, Lipkowitz, Talleghani present Reviewed London discussions and suggested possible new slants including small refinery fee, possibility distribution to both parties from escrow after escrow reaches minimum required AMH, possibility Brit wld give bank some discretion on rate of hiring technicians though on stated assumptions that no discrimination and that bank wld not undertake operation without Brit. After touching lightly on all other major points, including undesirability refined products price basis, Iran price formula too high, and unwillingness bank get involved again in argument on operating for Irans acct, informed Mosadeq that you wld be reporting to bank directors and we wld need your instrs before bank's position cld be firmly fixed. This is tactic to keep negots from freezing up. We are guided in this by your desire keep negots going. We concluded by saying that fairly wide distance still separates Iran and Brit and that as of today agrmt cannot be said to exist.

"Suggested Irans might logically ask more precision as to width of gap on different questions, and that we wld be glad go into each point in more detail in further mtgs. Mosadeq quiet and perhaps discouraged. He remarked that not much progress seems to have been made but said wld like negots continue until either agrmt or final impasse. Asked us meet Parliamentary Oil Comm tomorrow, without him, and arrange with comm for further mtgs, '5 or 6 mtgs if nec'. He mentioned prob of preparing budget for coming Majlis and that no oil agrmt wld mean sharp cuts causing unrest which perhaps widespread.

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[1] Repeated to London.

"Mar 3 FonOff handed me memo (see Embtel 3378, Mar 5).[2] Re para (a) that memo think this is poor idea and we do not intend budge from bank's previous position. Re para (b) believe first sentence means no exclusion to be expressed or implied.

"Last sentence means bank freedom to engage techs gradually. However in penultimate sentence Brit have put words in our mouth to which we might not agree in every circumstance. Bank's position is not to accept resp without nec techs and only ones readily available are Brit. Refer to Rieber for most recent views on avail techs from other sources.

"Para (c) is unrealistic since we had previously discussed price. Possibly they mean by-products prices. Asking Middleton have co mail you memo Mar 3 on points discussed with them in London, which yields little or nothing.

"My comment on London talks is that co, supported by HMG, cannot contemplate losing operational control either interim or long term, that Irans sense this and will balk. Believe we shld soon put time limit on negot present mission after clarifying points at issue and pass ball to Irans to take next initiative."

HENDERSON

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[2] Not printed. (888.2553/3-552)

No. 167

888.2553/3-1352: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET PRIORITY TEHRAN, March 13, 1952—6 p. m.

3513. 1. Fol conversation with Mosadeq on other subjects this morning, he said he wld like talk with me again re oil problem. He had been informed thru reliable sources that:

(a) Amer oil interests were opposed to agrmt between Iran and Bank and were doing utmost block it;

(b) Brit Govt also really unsympathetic to agrmt and was following policies which wld prevent its consummation.

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[1] Transmitted in two sections; repeated to London.

2. I told him in my opinion his sources unreliable. At risk being indiscreet, I had good reason know Brit Govt genuinely desired that negots shld continue to successful conclusion. In various Brit business circles, there might be elements who wld prefer that Iran oil fields remain inoperative unless they were under management Brit firm but I convinced such die-hards were in minority and not influencing policy Brit Govt. I also had what I considered good reason believe responsible leaders US oil industry anxious for agrmt between Bank and Iran because they feared that in absence such agrmt Iran wld fall in state of chaos. These businessmen believe it wld be unfortunate for US and for their own investments if country in strategical position of Iran shld collapse. There were undoubtedly some narrow-minded oil officials and other businessmen in US who were so opposed idea organization like Bank undertaking operate business enterprise that they wld prefer Iran go bankrupt rather than for Bank operate its oil industry. This kind thinking, however, did not dominate US business world. I wld not be frank, however, if I did not tell him that there was strong sentiment throughout whole business world that it wld be unfortunate for Bank enter into agrmt with Iran of character which might encourage govts other countries to break their internatl business agrmts. There was gen belief that if Iran wld obtain important advantages from its so-called "nationalization" law, chain reaction might set in which wld undermine whole structure internatl investments with disastrous consequences both to investing countries and to countries needing fon investment. I did not believe, however, Bank was being particularly influenced at this time by this quite legit concern on part business world. My impression was its inability to make certain concessions to Iran was not due to pressure from finan and business circles, but to practical commercial considerations. It cld not, for instance, make concessions re selling price Iran oil if such concessions wld result in establishment prices which internatl oil wld not pay. Mosadeq said he cld understand commercial factors involved in price problem.

3. I said in my opinion practical considerations also governed Bank's attitude re employment Brit technicians. Inescapable fact there was extreme shortage oil experts. Bank therefore unwilling undertake operating huge complicated enterprise like Iran oil industry if it cld not be free to choose technicians regardless nationality. Naturally, it wld not employ technicians who it has reason believe might intervene in Iran internal affairs. Furthermore it wld be contrary to very concept of Bank, an internatl organ, for it agree exclude persons from its employment on grounds nationality. Mosadeq said he understood Bank's difficulties. We shld also understand his position. He wld swear again that he wld never as

PriMin enter into any agrmt which wld permit employment single Brit oil technician Iran. Bank reps cld continue carry on negots for some twenty days until new Majlis met but so long as they contd to refuse to agree exclude Brit technicians, negots wld make no progress. He wld resign when new Majlis convened. Perhaps successor govt wld be willing enter into agrmt which wld permit return Brit oil technicians. He wld refuse remain on as PriMin if it shld become clear at that time that no agrmt with Bank possible unless that agrmt wld mean return Brit technicians. On one hand he cld not agree to return of these technicians and on other hand he preferred resign as PriMin rather than to block agrmt. He wld therefore step aside and let someone else take responsibility Iran's future.

4. I told PriMin I convinced bank cld not enter into any agrmt providing for exclusion employment Brit Natls as oil experts. In view what he had just said I thought it wld be difficult come to agrmt; nevertheless in order save time it might be possible during period between now and mtg new Majlis for reps bank in Iran work out agrmt complete in every respect except possible provision re techincians. If agrmt shld be reached on every other point it might be easier for new Majlis decide what course to adopt re Brit technicians. PriMin said without agrmt of technicians no mtg of minds possible on other points. He willing make concessions re differences such as price, terms of management in return for concessions on part bank re technicians. He wld not yield one inch on other points, however, unless he given reason believe bank wld yield on Brit technicians. Negots therefore wld be fruitless if bank unwilling change its attitude re Brit technicians or unless Majlis wld take responsibility for altering Iran attitude this point.

5. I said Prud'homme and his associates, men of affairs. It wld not be considerate for Iran Govt to keep them here for 20 days in what seemed to be useless negots. Mosadeq agreed. He said he thought it might be good idea for them leave Iran before Noruz holidays and return shortly after Easter. By that time new Majlis wld have convened and wld be prepared consider problem technicians. He added before departure Prud'homme might make announcement to gen effect his mission, after further exploration views Iran Govt, was proceed US for consultation with its principals and planned return to resume negots in Apr. He did not wish it to appear negots had broken down. Morale Iran people already very low; he did not know what wld happen if it wld sink much further.

6. When I returned to Emb from conv with Mosadeq, I found Prud'homme and other mbrs mission awaiting me. I outlined my conv with Mosadeq. They said his statement to me fitted in to

extent with their experience during last two days in negots. They had already been advised informally that it wld serve little purpose for them remain Iran during New Years holidays. They were planning tentatively return US early next week. I understanding they are telegraphing direct to bank in this respect.

7. I left Mosadeq feeling he was sincere in insisting he wld refuse continue as PriMin after Majlis met if bank now willing enter into agrmt which wld exclude Brit oil experts. I cannot be absolutely certain, however, that he may not change mind when time comes for him to carry out his intentions.

HENDERSON

No. 168

[illegible] Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET PRIORITY TEHRAN, March 14, 1952—noon.

3516. For Rountree for Garner IBRD from Prud'homme. Bank 12.

1. Yesterday's mtg with subcomite was probably last one this mission. Discussed export duties and income taxes for few minutes while sitting for over two hours indulging in tea and friendly persiflage in extraordinarily cheerful atmosphere. Looks like everybody has got the word (ref Ambassador's conversation with Mosadeq Mar 13 about which assume you have been informed). Also drafted joint communiqué to be submitted Mosadeq and hence subject to change, as fols:

> "The members of International Bank mission have discussed with mixed oil commission, and with subcomite appointed by it, many of the outstanding problems connected with oil question. Among these were questions of methods of operation, personnel, price, amount of oil to be sold and terms of sale. As result of these discussions it is necessary for bank mission obtain views of bank management, concerning some of these questions. The Noruz holidays provide an opportune occasion for them go to Washington for that purpose. After they have obtained further instructions and views of bank management, they are expected return Iran to resume work".

2. Have talked over with Henderson and Middleton alternative communiqué which they wld prefer as being more realistic and frank, although Henderson believes Dept wld prefer first.

3. Alternative communiqué fols:

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[1] Repeated to London

"Discussions have taken place between Iranian Govt and reps of International Bank regarding possibility of resuming operations in oil industry on large scale. Conversations have been frank and friendly but unfortunately it has proved impossible reach agreement. In circumstances Prud'homme and his advisers are returning Washington to report to their principals. Mr. Prud'homme has made it clear that International Bank wld be prepared resume negotiations in case it shld later appear that present difficulties in way of agreement might be overcome".[2]

4. In accord your instructions have kept negotiations open but as you know my personal judgement was that we shld have taken more positive position immediately upon my return from London.

5. Have asked see Mosadeq Saturday and will call on Busheri, Kazemi and others before leaving. Tentative departure plans which will confirm are Clarke by KLM Mar 19 arrive New York noon 20th, Lipkowitz BOAC Mar 18 spending several days Carne per instructions Rosen. I also plan leave March 18 spend one day Rome two days Nice en route Washington.

6. Under circumstances hardly seems we need further replies from you our previous questions. See you soon.

HENDERSON

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[2] Neither of these proposed communiques was issued. Rather, Henderson informed the Department in telegram 3540, Mar. 16, that the following version would be used:

"Members of Internatl Bank have held discussions about oil problem with PriMin and his advisers in several mtgs from Feb to March. Discussions, which have been frank and friendly covered principal problems involved in operation of industry. A measure has been achieved on some points but unfortunately, it has not been possible reach agrmt on several important issues.

"Members of Bank mission will avail themselves of Noruz and Easter holidays to go Wash and report result of these discussions to Bank management. Mission will be ready return here later, if it appears that further progress can be made." (888.2553/3-1652)

No. 169

888.2553/4-352: Telegram

The Secretary of State to the Embassy in Iran[1]

CONFIDENTIAL　　WASHINGTON, April 3, 1952—7:14 p. m.
PRIORITY

2146. Internatl Bank issued release press today stating there have been no new developments Bank's negots since joint communiqué; that Bank's mission has returned and made its report; that present status is negots recessed not terminated; and that Bank stands ready assist working out any practicable suggestion which offers any reasonable prospect success. Accompanying statement is lengthy review oil controversy and role played by Bank.[2]

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[1] Repeated priority to London. Drafted by C. Vaughan Ferguson and approved by Rountree.

Dept wld have preferred review negots not be issued and so informed Bank. Bank, however, considered it necessary for nr reasons set forth record its activities and has been encouraged do so by Brit Govt. While review substantially accurate it may give impression blame placed largely on Irans, and we fear it may result in improbability future re-entry into picture on part Bank. Iran reaction detailed points at issue as set forth in statement may also greatly enhance difficulty any future negots for Irans retreat from position taken by Mosadeq.

If matter arises in conversation with Iran officials, you may wish take line Bank probably felt obliged by very character its org recount in full its various activities and in view suspension conversations in Iran it believed it had make statement this sort. Statement does not however mean Bank unwilling resume discussions.

Dept believes it best Emb not publicize review itself or distribute it through official US informational media. No objection however distribution introductory release explaining Bank's present position summarized first para.

FYI, Garner consulted Senator Busheri's son, Iran Rep on Bank, who did not anticipate adverse reaction to statement. Realize of course he not in position reflect Iran viewpoint.

ACHESON

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[2] Neither the Bank's press release nor its accompanying statement is printed (888.2553/4-352)

No. 170

788.5 MSP/4-1952 Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET PRIORITY TEHRAN, April 19, 1952—5 p. m.

4024. 1. Following my talk with Shah regarding likelihood funds earmarked for 1952 military aid to Iran being diverted to other countries, Shah discussed matter with Mosadeq insisting latter give required assurances. (Embtel 3916, April 14.)[2] Shah also requested

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[1] Transmitted in two sections.

[2] Telegram 3916 also reported that Henderson informed the Shah again that the United States could not resume military aid to Iran until the Iranian Government

Continued

Ala to ask me for copy draft reply which last January Shah was hoping be able make to Kingsbury Smith (Deptel 1410 of January 11).[3] At Ala's request on morning 17 April I give him following draft of proposed reply to Kingsbury Smith altered somewhat to make it suitable for incorporation in communication from Prime Minister to me.

"International position Iran has been consistently clear. Iran seeks maintain friendly relations with other members UN. To extent that its resources and general conditions permit, it loyally supports and defends principles of charter UN. While devoted to cause world peace it is doing what it can strengthen its defensive capabilities. If it should be attacked from any direction whatsoever it would defend itself with all resources it commands."

In handing Ala this draft I stated that although I thought US Govt would still consider it satisfied requirements of 511 (a) in conjunction with assurances already contained in Mosadeq's note of January 4,[4] I could not be sure.

2. Ala discussed this draft on same day with Prime Minister who said he did not believe he could give assurances contained in it but would take up matter with Cabinet in afternoon session. During this session Minister War Yazdanpanah and Minister Roads Busheri urged Prime Minister give such assurances. Only member Cabinet really opposed was Kazemi, Foreign Affairs Minister, who argued that giving assurances this kind would inevitably force Iran into Western bloc and would provoke Russians. Foreign Minister particularly opposed to phrase "while devoted to cause world peace" which he maintained would mean Iran ready to go to war for cause world peace. Prime Minister told Cabinet he would endeavor persuade me to recommend that US Government accept statement from him to effect Iran willing to accept military aid from US and adhere to principles UN charter. He did not think could go further without endangering Iran's neutrality.

3. Ala reported these developments to me on evening April 18 and asked if US Government could not accept statement suggested by Prime Minister. I said no I would not even submit statement this kind for approval. If I did Washington would certainly obtain

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had provided the proper assurances called for under Section 511 (a) of the Mutual Security Act of 1951. (123 Richards, Arthur L.)

[3] On Jan. 9 Ambassador Henderson cabled to the Department a draft reply from the Shah to questions which Kingsbury Smith, a newsman, had addressed to him. The suggested response would have provided, when incorporated in a formal letter from the Iranian Government, the proper assurances necessary to qualify Iran for military aid under the terms of the Mutual Security Act. (Telegram 2545; 788.5 MSP/1-952) The Department informed Henderson that it approved this plan on Jan. 11. (Telegram 1410; 788.5 MSP/1-952)

[4] See footnote 4, Document 141.

impression Prime Minister was taking frivolous attitude towards matter considerable importance. Ala said he would discuss matter again morning 19th with Mosadeq.

4. This morning after talking with Mosadeq Ala telephoned me. Said Prime Minister still maintained he could not give assurances of character contained in draft. Ala added Shah had asked him urge me recommend Washington accept Mosadeq's proposed draft accompanied by private assurances of Shah that as soon as new government would come into power Shah would do all possible prevail on it give full assurances of kind needed. I told Ala I was not sure US Government would be satisfied even with statements of kind I had given him and I knew it would be useless to propose anything less strong. At Mosadeq's request I saw him today shortly before noon. Before calling on him I had edited draft given Ala cutting it down to three short essential statements which read as follows:

> "To extent that its resources and general conditions permit, Iran loyally supports and defends principles of charter UN. It is doing what it can to strengthen its defensive capabilities. If it should be attacked from any direction whatsoever it would defend itself with all resources its command."

5. Prime Minister opened our conversation with long dissertation regarding importance to US and to Iran that US continue maintain active interest welfare and independence Iran. He said this interest so important US shld not allow matters of mere form or legal technicalities to prevent it from giving Iran such aid as it might need. He insisted he had always desired US military aid but unfortunately US had not been prepared to give it unless Iran give US commitments which he was not in position to give because of certain internal and international considerations.

I interrupted Prime Minister at this point. I said I still failed understand why kind of assurances which US required should be embarrassing to him or to Iran. I handed him copy of draft quoted in paragraph 4 above asked him read carefully three sentences contained in it and tell me why any country which was loyal member UN should hesitate incorporate them in statement of its policies. Prime Minister after going over these sentences one by one inquired if I thought they would satisfy my government. I replied I had not had opportunity submit them to Washington but I believed that they would. He said he was willing to make statements substantially the same as those incorporated in this document if his Cabinet would agree. He might however like make several minor changes. Prime Minister then proceeded to scribble various versions of draft of note to me. After considerable haggling I finally agreed to accept for consideration Washington draft which seemed to me to meet our basic requirements. I asked him if I was at liberty submit this draft immediately to State Department for approval. He said he preferred I wait until Cabinet should have opportunity pass on it this evening. In view however urgency this matter I am submitting tentatively herewith for Department's comments English translation his Persian draft.

6. Pursuant to our oral conversations I find it necessary to inform Your Excellency that:

> "My Government in view of its financial and economic situation has never withheld acceptance of the assistance which Your Excellency's Government is prepared to extend to this country.
>
> To the extent that Iran's resources and general conditions permit Iran supports and defends the principles of the charter of the UN.
>
> It is also doing what it can to defend its defensive capabilities.
>
> And if it should be attacked from any direction it shall defend its freedom and independence with all its might."

6. [*sic*] I told Prime Minister that if this note should be acceptable US Government Department of State at appropriate time would probably be obliged to inform Congress that in its opinion Iran had qualified itself to receive military aid. Prime Minister said he would have no objection but earnestly requested that State Department in informing Congress that Iran had qualified self receive military aid would not publicly state that Iran had complied with provisions MSA. He did not want his opponents say he had allowed himself to be governed by US legislation. He therefore had avoided any reference to US legislation in his note to me.

7. Although I did not discuss with Prime Minister character my reply to his note I hope Department will not insist that it contain reference to MSA. I suggest my reply be limited to acknowledgment his note and to statement to effect that I have pleasure inform him my government is taking appropriate steps to resume extension of military aid to Iran.

8. I sincerely hope Department can accept as satisfactory assurances Prime Minister's draft without alterations. Changes on our part might result in series of attempted alterations by him. I have been encouraged to believe that this draft might be acceptable to Department in view attitude displayed by Department in Deptel 1410 of January 11 in reply Embtel 2545 of January 9.[5]

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[5] See footnote 3 above.

9. Shall inform Department just as soon as we learn Cabinet's decision.[6]

Henderson

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[6] On Apr. 19 Ambassador Henderson reported that Mosadeq informed him that the Iranian Cabinet had approved the draft note submitted in telegram 4024. (Telegram 4025; 788.5 MSP/4-1952)

No. 171

788.5/4-2052: Telegram

The Secretary of State to the Embassy in Iran[1]

SECRET PRIORITY WASHINGTON, April 21, 1952—7:07 p. m.
NIACT

2312. Draft Iran note (urtel 4024 Apr 19) as amended by ur 4029 Apr 20[2] acceptable provided change made which shld not present great difficulties for Iran Gov.

This is in preamble beginning "my Govt". As now worded this sentence might be misinterpreted as ungracious and unfriendly and cause unnecessary difficulty. Substitution of "welcomes" for "has never withheld acceptance of" wld avoid this difficulty. Alternatively, entire sentence might be omitted.

Regret necessity suggesting change in text but hope this modification will not prove difficult.

If Iran Gov agrees note as modified above, suggest ur reply acknowledge receipt Mosadeq note and refer to conversations between two Govts on question US mil and econ aid. You might then state in view contents his communication, US Gov prepared resume mil aid as soon as possible.

Fol is suggested press release to be put out by both Govts:

"Conversations which have been proceeding for several months between Iran and US Govs on question Amer mil assistance to Iran have now been concluded and US has recd from Iran assurances which qualify that country to again receive this assistance. Shipments of mil supplies by US Gov will be resumed as soon as possible."

If exchange takes place, suggest you pt out at least to Shah but also to Mosadeq if you deem advisable that substantial interruption in Iran mil program may result in some delay before shipments in large quantity can be resumed by US will do its best to expedite.

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[1] Drafted by C. Vaughan Ferguson and Rountree and approved by Matthews.

[2] On Apr. 20 Ambassador Henderson notified the Department to substitute the word "strengthen" for "defend" in the final paragraph of the Iranian draft note. (Telegram 4029; 788.5/4-2052)

ACHESON

No. 172

788.5/4-2352: Telegram

The Ambassador in Iran (Henderson) to the Department of State

SECRET NIACT TEHRAN, April 23, 1952—5 p. m.

4068. 1. Because delays in transmission and garbled condition Deptel 2312, April 21 answer to Embtel 4024, April 19 deciphered only late this morning. Saw Mosadeq early afternoon. Found him apparently greatly disturbed re current political and financial sitn. This subject another tel.[1] Said he already under severe fire several directions because his decision accept US mil aid and compelled at present critical juncture move with greatest care.

2. He accepted with reluctance Dept's suggestion substitution word "welcomes". First asked if we wld not agree to "accepts". I said probably if he wld add "gladly" or "with pleasure". Otherwise connotation was US pressing Iran accept aid. He apparently preferred Dept's suggestion. At my suggestion Mosadeq agreed to fol change in English translation third para his note to me:

"Iran supports and defends the principles of the Charter of the UN to the extent that its resources and general conditions permit."

3. I then showed him my proposed reply which after acknowledging his note added: "and take pleasure in informing Your Excellency that US Govt has authorized me state it is resuming extension military aid Iran". He suggested deletion word "military". I said with such deletion exchange wld make no sense, US already giving Iran econ aid. He then said no answer necessary. In any event he did not wish word "military" used in text of notes. This wld add to his troubles. I finally agreed tentatively to reply as fols:

"I have read Your Excellency's note to me of Apr (blank), 1952 and take pleasure in informing Your Excellency that I am apprising the Govt of the US of its contents.

"Accept, Excellency, etc."

4. I then gave him copy Dept's suggested press release. He objected strenuously, particularly to words "mil," "assurances," and "qualify". Said no communiqués necessary. Publication of notes wld be sufficient. I said publication of notes as now drafted without

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[1] Not printed.

any indication of resumption mil aid wld lead to unnecessary speculation and wld attract more attention than mere factual statement mil aid being resumed. After considerable discussion we tentatively agreed:

(a) Iran communiqué wld consist merely text of notes,
(b) US communique wld read as fols:

> "Fol an exchange of notes on Apr (blank), 1952, between the Prime Minister of Iran and the Amb of the US to Iran, it has been decided that mil assist from the US to Iran shld be resumed. Shipments of mil supplies by the Govt of the US will be resumed as soon as possible.
>
> "The notes referred to above read as fols: (text of notes)."

5. I told Prime Minister that in replying to press inquiries and in communicating with Congress, spokesmen for State Dept wld make US and Iran look ridiculous if they failed frankly to state significance of exchange. He said he realized that outside context communiqué State Dept officials might be obliged make certain explanations. He hoped, however, they cld use words such as "statements" instead of "assurances," and "entitled to" instead of "qualified" in discussing matter with press or Congress. I told him I was sure State Dept wld be discreet as possible and endeavor not embarrass him or his govt by emphasizing Iran had at last given assurances which US law required.

6. Our agrmts were tentative on both sides. He said he must submit documents I left with him to Cab for final decision and I said I must submit to State Dept. He again asked I not take up matter with Dept until after clearance had been obtained from Cab. Nevertheless, I am doing so in view time element. Even though docs submitted herein not as satisfactory as I wld like I hope Dept can accept them. Apparently Kazemi, FonMin who has vigorously opposed mil aid has been rallying his forces in last attempt block it and Prime Minister is in delicate position because he cannot afford at this critical moment lose support Kashani and Natlist extremist elements for whom Kazemi acts as spokesman.[2]

7. If Dept desires after communiqués have been published I cld write MFA routine note stating with no ref to exchange of notes between Mosadeq and me that US Govt has authorized me to inform Govt of Iran that it has given instrs for resumption of mil

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[2] Henderson reported on Apr 23 that the Iranian Cabinet had approved all the tentative arrangements described in telegram 4068, with the exception that in the proposed Department of State communique the word "resumed" in the sentence ending "Iran should be resumed" be changed to "continued" (Telegram 4071; 788.5/4-2352)

assist to Iran. I wld do this without previous discussion with Mosadeq.

HENDERSON

No. 173

[illegible] Telegram

The Secretary of State to the Embassy in Iran[1]

SECRET PRIORITY WASHINGTON, April 23, 1952—7:37 p.m.
NIACT

2334. 1. Agree modified wording English translation third para Mosadeq's note to you, as indicated para 2 Embtel 4068.[2]

2. Concur ur proposed reply as per para 3 reftel.

3. Agree proposed press treatment of release as per para 4 as modified by Embtel 4071.[3] However, believe it advisable that Dept's press release end with first para and that text of notes be not incorporated in US statement. Reason is that publication of notes wld raise question as to whether this alone complies with provisions Sec 511a, and it wld then have to be explained that this Iran note must be read in conjunction with previous note in connection Sec 511b. Comparison wording notes with precise language in legislation wld probably result in some confusion or misunderstanding. If such questions arise as result release of notes by IranGov, however, Dept cld explain matter on *ad hoc* and oral basis to anyone who inquires.

4. It is intended that brief written communique will be released, and other comments will be made as oral explanation. In doing so, Dept will endeavor comply with Mosadeq's wishes as reported para 5 reftel and avoid any statements which might be embarrassing to him. Dept cld not, of course, make statement which cld be construed as covering up or concealing purpose of exchange.

5. Dept sees no need for procedure suggested para 7 reftel which might be particularly undesirable in view Kazemi attitude.

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[1] Drafted by Rountree and C. Vaughan Ferguson and approved by Matthews.

[2] *Supra.*

[3] See footnote 2, *supra.*

6. You are authorized proceed on foregoing basis.[4] Suggest coordinated press releases Friday.[5]

ACHESON

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[4] On Apr. 24 Ambassador Henderson reported that he and Mosadeq had exchanged notes that morning. (Telegram 4085; 788.5/4-2452) The original of Mosadeq's note and a certified copy of Henderson's note are included in despatch 1130 from Tehran, Apr. 25. (788.5 MSP/4-2452) For the texts, see TIAS No. 2967 and 5 UST (pt. 1) 788.

[5] Not printed; for the text of the press release issued on Apr. 25, see Department of State *Bulletin*, May 12, 1952, p. 746.

No. 174

[illegible]: Telegram

The Secretary of State to the Embassy in the United Kingdom[1]

SECRET PRIORITY WASHINGTON, April 29, 1952—12:35 p. m.

5535. Fol for ur use in replying Eden's comments (re Embtel 4884[2] rptd Tehran 206).

US announced at time that mil assistance to Iran had been suspended effective Jan 8 as result Iran's failure comply with provisions Sec 511a MSA. Also announced that communication had been recd from Mosadeq which permitted continuation technical assistance program.[3] It was made clear that conversations with IranGov re assurances for mil aid were continuing and that it was hoped satisfactory arrangements wld be worked out. Such conversations were in fact continued between Amb Henderson and IranGov. BritEmb here were informed upon this matter. Shah and mil leaders were seriously concerned over suspension mil aid and exerted constant pressure upon Mosadeq to give required statements. Mosadeq and Shah knew from early stages of negots minimum statements which wld be accepted by US, and cld at any time have concluded matter permitting resumption mil aid. Largely if not entirely as result pressure from Shah, Mosadeq decided reluctantly and in opposition extremist elements in Cabinet make required statements which were incorporated in his note of Apr 24. In announcing this action Dept made clear to press Apr 25 that this related solely to mil aid.[4]

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[1] Repeated priority to Tehran. Drafted by Rountree and approved by Matthews.

[2] In telegram 4884 Ambassador Gifford reported that Foreign Secretary Eden had telephoned him on Apr. 28 to express his disappointment with the apparent failure of the United States to inform the British in advance that a military assistance agreement was being concluded with Iran. Eden also claimed that the United States, by its action, had given Mosadeq a new lease on life, as he was conveying the impression that this agreement represented a U.S. decision to extend financial aid as well to Iran. The Ambassador said he had tried to reassure Eden that the accord contained no new provisions, that Mosadeq simply had complied at last with the requirements of the Mutual Security Act. Eden, however, refused to accept this explanation. He was concerned about the domestic political ramifications of this event, as it created the impression that the United States and United Kingdom were divided over policy vis-a-vis Iran. (788.5/4-2852)

[3] W. Averell Harriman, the Director of Mutual Security, made these actions public on Jan. 22 in letters addressed to the Chairmen of the Senate Foreign Relations, House Foreign Affairs, and House Armed Services Committees. For the text, see Department of State *Bulletin*, Feb. 11, 1952, p. 238.

Prior to receipt Embtel and *démarche* by BritEmb rep Wash,[5] Dept recd Tehran's 4162[6] reporting that Mosadeq Govt creating false hope US preparing large-scale finan aid to Iran and hinting resumption mil aid only beginning various kinds new assistance from US. Amb Henderson suggested Dept find earliest occasion make clear no new change in US policy re econ and finan aid to Iran.

Completely aside from Brit approach, Dept naturally disturbed at indications IranGov creating erroneous impressions concerning import Apr 24 exchange of notes and will endeavor further clarify matter in press statement today, which will be subj separate tel.[7]

In discussing matter with Eden suggest you point out (a) Dept assumed Brit knew status of matter and likelihood exchange of notes wld take place at any time; (b) US mil group in Iran was not withdrawn under assumption aid wld be resumed at early date; (c) principal motivating force in exchange of notes was Shah who was earnestly alarmed over possibility losing US mil aid, since he knew that if assurances not given very soon mil aid earmarked for Iran wld have to be transferred to other countries in order permit obligation before June 30; (d) US, having made it clear only impediment to continuing mil aid was lack of assurances, and having made clear from inception of discussions nature of statements required, cld not very well refuse accept them when offered, and (e) development is not entirely to Mosadeq's polit advantage since for first time he has been forced to retreat from previously announced position under direct pressure from Shah. Polit advantage at best can be temporary and once US position clear, Dept confident no harm will result.

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[4] See footnote 5, *supra*.

[5] On Apr. 28 representatives of the British Embassy protested the conclusion of the military aid agreement along the same lines as Eden had to Ambassador Gifford. Department officials responded with the same observations which were sent to London in telegram 5535. (788.5 MSP/4-2852)

[6] In telegram 4162 Ambassador Henderson reported that Mosadeq was suggesting that the military aid accord foreshadowed the granting of large-scale financial aid as well. (888.10/4-2852)

[7] The Department informed Gifford in telegram 5543 that the Department's statement of Apr. 29 regarding aid programs for Iran would be in that evening's *Wireless Bulletin*. (788.5/4-2952) In telegram 2497, May 8, the Department informed the Embassy in Tehran that the Department had given the British Embassy in Washington copies of the news conference transcript as well as a copy of the statement used by the Voice of America. Moreover, the Embassy was informed that the transcript of the news conference was not published by the Department. (788.5/5-752)

Believe you took proper initial line with Eden and hope above will reassure him. Appropriate legislation Sec 511a of MSA of 1951, not 408.

ACHESON

No. 175

788.00/5-2452: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET PRIORITY TEHRAN, May 24, 1952—noon.

4540. 1. Ala, Min Court, asked to see me yesterday afternoon. He told me he wanted to talk in utmost confidence re problem facing Shah. Until several weeks ago Shah's policy of not intervening in political situation seemed to have widespread support although certain opposition circles were inclined be critical at his passivity. As situation has continued decline increasing number Iranian polit leaders have been insisting that Shah take some action to prevent complete ruin of country. He was afraid that Shah's policy of non-intervention was now commencing seriously to affect his prestige. Country was looking to Shah to take some kind of action. Question was what kind of action shld he take and at what point.

Shld Shah take steps to effect removal Mosadeq before May 27 tentative date departure for Hague? If he did and Internatl Court shld decide against Iran Shah and new govt wld certainly be blamed. Shld Shah try bring about fall of Mosadeq after latter had concluded his arguments at Hague and before he had returned to Iran? Such course might be construed as cowardly. It might be said Shah had not dared remove Mosadeq while latter was on Iranian soil. Suppose Shah shld decide await Mosadeq's return before effecting his removal. Mosadeq might dawdle on his way back. He might stop over in Switzerland or elsewhere in meantime financial situation of country might have resulted in internal disorders. Furthermore if Shah shld bring about removal Mosadeq now, in Hague, or after his return what cld his successor do to relieve financial situation? If Bank Melli shld be unable furnish more money new govt wld probably not be able pay govt salaries and other current expenses.

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[1] Transmitted in two sections; also sent to London.

It seemed now quite clear US cld not help Iran overcome its financial difficulties except with advance approval of Brit Govt.

That approval not likely be given until Iran had met such condition as UK may prescribe for oil settlement. It wld take considerable amount of time for agreement to be concluded even if both govts take conciliatory attitude. But Iran had no knowledge which wld cause it to believe Brit wld take conciliatory attitude. It not impossible UK seeing that Iran's situation was desperate might stiffen its demands to such extent that new govt finding itself unable meet them wld collapse. Even if US Govt wld be willing come to rescue new Iranian Govt financially without awaiting settlement oil question there no reason believe it had funds readily available for such purpose. Perhaps Congressional action wld be required. Ala said he wld be grateful for such advice and suggestion as I might be able give him on confidential personal basis.

2. We are convinced in view unyielding attitude assumed by Mosadeq and by Brit Govt no settlement oil problem possible so long as Mosadeq remains as PriMin. Mosadeq's retirement therefore seems condition precedent to reaching oil settlement. Nevertheless hesitate in view lack of knowledge of Brit intentions give Ala advice. I assume Brit prefer that we do not know their intentions and that we give no advice. It seems to me that some of Ala's worries are justified. I cld not therefore brush them lightly aside and suggest he tell Shah he shld get rid of Mosadeq now. I therefore told Ala I could appreciate his perplexities and was sorry I had no ready answer for all of them. Before venturing offer any advice I wld like give whole matter careful thought. Ala said he wld talk to me again in day or two. He afraid however it already too late for Shah take any decisive action before date set for Mosadeq's departure.

3. I asked Ala who in his opinion seemed likely at this juncture to succeed Mosadeq. He said number of candidates. Among old line politicians there were Qavam, Mansour and Hakimi. He did not seem enthusiastic about these three. He said Entezam's name was also cropping up again. He spoke of Entezam in somewhat warmer tones. Busheri was anxious for job. Maki also had been talking like a candidate to Shah. Ala seemed doubtful that either of these men had necessary prestige. He said among Natl Front group Shah was particularly impressed with Saleh. Shah liked Saleh's courage and determination in dealing with Kashani. Saleh seemed to have integrity as well as strength. . . .

4. Ala asked me if I had any idea as to kind of agreement re oil which wld be acceptable to Brit. I replied in negative, pointing out

I was, however, aware of several kinds which wld not be acceptable. I added I thought Brit might still be willing accept proposals similar to those made by Internatl Bank. I was not in position, however, speak for Brit. I asked Ala why he did not discuss problem oil with Brit. He said he did not like to do this without knowledge Mosadeq and Mosadeq wld, of course, object to informal conversations. Ala expressed concern re matter Brit oil technicians. He afraid Brit had in mind entry several hundred. He thought perhaps country might be able tolerate arrangements under which say 20 percent of foreign technicians wld be Brit. He not sure. Situation in south explosive and appearance in oil areas of even relatively small number Brit technicians might result in violence and sabotage on wide scale. Eventually number Brit technicians might be increased but at beginning number shld be extremely limited. I said one aspect of problem seemed be that fairly large number Brit technicians needed to reopen refinery. Ala said many Iranians still cld not understood why technicians other than Brit cld not be found for most of jobs in which foreign experts needed. There was tendency among Iranians believe polit rather than technical reasons responsible for insistence that Brit experts necessary for operation Iranian oil industry.[2]

5. Dept might care reread Embtel 3999, Apr 18[3] in connection with above.

HENDERSON

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[2] The Department responded that same day that it had given serious consideration to the many difficult aspects of the problem which the possible fall of Mosadeq would create, and that it hoped to provide the Embassy with a definite statement of policy in the near future. Moreover, the Department agreed with Henderson's position that the United States could not advise the Shah to remove Mosadeq prior to his departure for The Hague. (Telegram 2682; 788.13/5-2452)

[3] In this telegram Ambassador Henderson reported that there might be a sudden change of government in Iran. Therefore, he suggested that the Department urgently consider what measures the United States could initiate, particularly in the area of economic aid, to encourage a new regime to settle the oil controversy and to pursue policies generally oriented in a pro-Western direction. (888.10/4-1852)

No. 176

788.00/5-2852: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET TEHRAN, May 28, 1952—4 p. m.

4609. 1. Ala, Min Court, came see me last evening. He said that Mosadeq talked with Shah for more than two hours early in day; that altho conversation had begun amicable vein PriMin had suddenly told Shah that Court and Army had been interfering brazenly in elections and this interference had caused him postpone elections. Mosadeq also took occasion again accuse Queen Mother and other members Royal family of carrying on intrigues against him and his govt and insisted Shah take steps keep Court and Army out Iranian politics.

2. According to Ala, Shah heatedly denied these charges. He said if any criticism was to be made against conduct elections it shld be made primarily against supporters Mosadeq, particularly Kashani and his friends, who had rigged elections and used terror in order bring about defeat candidates whom they particularly disliked. Shah said Mosadeq himself had been guilty making unfair attacks on various leading Iranian statesmen such as Hekmat, former President Majlis, at present candidate from Shiraz. Mosadeq softened somewhat in face Shah's counterattack and said he not accusing Shah personally of being implicated interference in elections or in political intrigues. Ala said Shah continued to take offensive; pointed out that he had been uniformly correct in his support Mosadeq even though he was not sure Mosadeq was leading country in right direction. Shah pointed out Mosadeq thus far had not explained to him how he hoped with his present policies to extricate Iran from its financial situation.

3. Ala said that after talking with Shah, Mosadeq called on him in extremely depressed mood. Mosadeq's dejection had been deepened as result of altercation which he had had during day with four Senators who were to accompany him to Hague. Apparently, Senators had wanted to go as members official mission and Mosadeq had insisted that they wld go only as his personal advisers. This result differences, Senators had decided not to go. Saleh, former Min Interior, however, was accompanying Mosadeq to Hague to be of such assistance as might be possible.

4. Ala said that yesterday afternoon Shah had told him of conversation with Mosadeq and had said that steps must be taken in

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[1] Transmitted in two sections.

near future to have Mosadeq replaced. Shah had said feeling against Mosadeq now so high he cld not delay taking action much longer. Ala said that Shah had requested him to call on me at once in order ask me directly and frankly whether in my opinion US Govt was actually supporting Mosadeq as was being charged and really desired that Mosadeq remain as PriMin. Ala said Shah and he knew that I had been careful not to interfere in internal politics and that they hoped that I wld not consider it incorrect to give frank answers to their questions. Shah needed have answer when making certain decisions.

5. Told Ala in my opinion US Govt had been giving Mosadeq same degree cooperation as it wld give any PriMin of friendly country who showed desire for such cooperation. It had not, however, been supporting Mosadeq as a politician. Shah must be fully aware of various problems which US had faced during last year in its relations with Iran because of Mosadeq's personal attitude. In my conversations with Mosadeq I had never hidden from him my belief he was leading Iran in dangerous direction. For sometime I personally had been convinced that in view attitude of UK and of Mosadeq's, no solution of oil problem cld be found so long as Mosadeq retained as PriMin. I believed and I thought US Govt had same belief, that solution oil problem necessary if Iran's internal and international situation was to become normal in foreseeable future. I had great admiration for certain qualities PriMin and I knew US Govt held him in high esteem. Nevertheless, his unreasonableness in certain matters, such as, for instance, his unyielding opposition to presence Brit oil technicians in Iran, was causing harm to Iran and to entire community free nations.

6. Ala expressed appreciation for "my frankness". He said that Shah had decided that time was near at hand when there must be change in govt but he did not wish to make any move without consultation with me. Shah did not know how he might best proceed in matter and had asked Ala's advice. Ala wondered whether I cld personally and confidentially, offer my suggestions. I said I not well enough acquainted with background venture give advice. It had occurred to me however that after PriMin had presented Iran's case to Int Court, and after court had taken matter under advisement, Shah cld send message to PriMin, telling him that situation in Iran demanded his immediate return, suggesting that he come back at once without waiting for decision Int Court. Shah, by asking Mosadeq to return, wld have assumed leadership in polit crisis and upon PriMin's return Shah by series other measures cld maintain this leadership. Ala again thanked me. He said he thought it a good idea for Shah to get PriMin back into Iran just as soon as possible. It wld be particularly helpful if Mosadeq wld be in

Iran when decision handed down so he cld not use it in dramatizing his return.

7. Ala said that Shah had also had long talk yesterday afternoon with Saleh and was more favorably impressed than ever with latter's reasonable attitude and high ideals. Saleh had been quite critical of PriMin and had expressed complete devotion to Shah. Shah was seriously considering advisability of naming Saleh as Mosadeq's successor. I told Ala I had already expressed my tentative views re Saleh, whose attitude re US and West in general was reputed not to be friendly.

. . . Ala asked what I thought of Entezam. I said altho I did not know Entezam well, I thought him person of considerable ability, possessing broad outlook. Ala cld judge better than I whether he had the strength of character and the moral hardihood to make the clearcut decisions which next PriMin shld make if country was to be saved.

8. Dept will understand that I have leaned over backwards not to become involved in Iranian internal affairs. I responded as I did to Ala's questions during present conversation because I believe that if I had not done so both Shah and Ala wld have obtained impression that I unwilling talk frankly with them. As result my present relationship with them might have been adversely affected. Furthermore, it seemed to me that I shld not be evasive when trustworthy emissary of Shah approaches me in this fashion.[2]

Henderson

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[2] On May 29 the Department informed Henderson that it concurred completely with his handling of the situation to date, and that it did not believe the United States should suggest any names of candidates for the premiership. The Department did not object, however, if Henderson commented upon specific names which the Shah might put forward. (Telegram 2731; 788.13/5-2952)

No. 177

888.10/4-1852: Telegram

The Secretary of State to the Embassy in Iran[1]

TOP SECRET PRIORITY WASHINGTON, May 30, 1952—1:33 p. m.

2742. Problems raised urtel 3999 Apr 18[2] which have been lent emphasis by urtel 4540 May 24 have been receiving careful consideration. Fol reflects current thinking:

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[1] Repeated to London. Drafted by Rountree and Ferguson and approved by Matthews.

[2] See footnote 3, Document 175, and footnote 3 below.

1) Dept agrees that shld Mosadeq be replaced by Govt with strength of purpose to defend itself against external communist aggression or internal subversion and willing and able realistically negot for oil settlement with Brit, US shld do utmost assist such Govt in installing stability and in developing economy in such a manner as to reduce danger loss of Iran through internal communist subversion.

2) Since it will be necessary for West to act promptly and vigorously in event such a Govt comes to power, we have been urging Brit at all levels to complete preparation proposal for long-range settlement to be offered immediately moment is ripe. We have been exploring possibility extending finan aid to tide Govt over until oil revenues are resumed. We wld also seriously consider to extent permitted by legis and fund availabilities such increases in existing programs as might be urgently required by Iran, although uncertainties both as to specific amts of aid Iran might need and as to Cong action upon pending aid legis render it impossible to make firm plans or commitments. Assuming (a) reasonably favorable Cong action on pending MSA legis and (b) replacement of Mosadeq by dependable successor willing settle oil controversy, max order of magnitude aid to Iran which Dept, after consulting DMS, can today envisage for FY '53 is $30 to $35 million milit (including packing handling and shipping); $25 million Pt Four; and possibly up to $60 million finan if an emergency exists sufficient to justify transfer from other titles and other country programs (this wld involve Presidential findings and Congressional consultations). In addition $25 million Exim loan might under certain circumstances be made available.

3) Irans have often expressed resentment US treatment of Iran has never been as favorable as US treatment Greece and Turkey and are inclined invidiously to compare aid rendered Iran with that under the Grk-Turk programs. Fact is that concepts Truman Doctrine apply equally to Iran as to other countries which we aid. Extent and nature of aid to each country however is based not upon what others receive but upon such factors as (a) their needs, taking into account their own resources, and (b) the extent to which such assistance can be effectively utilized. If by "no less favorably" Emb means aid programs to Iran at approximately levels in Greece and Turkey, ans question 4a Embtel 3999[3] wld probably be that while US prepared apply similar criteria in establishing Iran needs, such needs wld be less than those of Greece or Turkey. This is particularly true in view fact by settling oil controversy, Iran requirement for fon finan aid wld be limited except in initial stages resumed operations, and absorptive capacity Iran armed forces as effective instrument free world strength far less than Grk or Turk. This connection pls confirm whether Dept's understanding is correct that you and mil mission believe mil aid of roughly $30-$35 million is max Iran cld make effective use for FY '53.

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[3] Henderson, in paragraph 4a of telegram 3999, Apr. 18, asked the Department if the United States desired to have Iran cast its lot with the free world, and, if so, if the United States was prepared to treat Iran as favorably as it had Greece and Turkey. (888.10/4-1852)

4) In view complications vis-à-vis UK, finan aid to Iran must perforce be contingent upon Iran willingness and ability negot realistically for settlement oil controversy. It is difficult to say at this time exact nature of assurances which might be required from IranGovt, but firm statement intention negot plus tangible action to demonstrate that a feasible deal is possible might be adequate. On complicating angles US-UK relations Dept will tel you fol Secy's return from Europe, where he might have discussed Iran problem with Eden.

It is recognized it will be impossible for you at this juncture to give Shah advice which he has requested through Ala. Complicating factors are: (a) We do not know Brit intentions re proposals to successor Govt; (b) uncertainties of Congressional action upon pending MSA legis; and (c) necessity for informing Brit of new important policy decisions bearing directly or indirectly upon oil matter which we might communicate to Shah. However, Dept agreeable at ur discretion and if you believe it wld have beneficial results ur taking fol line with Shah and/or Ala now, which wld be largely to reassure them sincere interest of US in Iran and our willingness render all practicable assistance:

A) Emphasize that our concern for independence, sovereignty and territorial integrity of Iran is no less than our concern for independence, sovereignty and territorial integrity of Greece and Turkey. US has made this clear on number of occasions, including several public statements by top US officials (cite for instance Secy's statement of Mar 18, 1949).[4] Today, because of immed danger Iran's current unhappy situation, our concern for Iran's integrity is even more in forefront of our minds than our concern for Greece and Turkey. Thus far, however, opportunities for our aid being effective, because of conditions in Iran, have been far less in Iran than in Greece and Turkey, although very appreciable assistance—totaling roughly $125 million—has in fact been given or is in process and substantial additional Pt 4 and mil aid are being considered for FY '53. The oil controversy itself has, as they will recognize, been a severe handicap in this respect. Were these conditions to change, we wld be prepared to give prompt attention to possibilities of increasing scope and magnitude of our aid.

B) Form and amount of such aid wld be determined (1) by Iran's needs after taking into account such actions as Iran itself cld take to facilitate resumption its oil revenues, (2) by degree to which Iran cld effectively and constructively use aid which might be supplied—a consideration involving not only material factors but also Iran's strength of purpose to defend itself against external aggression or internal subversion, and (3) by limitations established by US Cong on volume and form of aid which US is authorized to make available.

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[4] Presumably the reference is to the Secretary of State's statement, which was not released to the press until Mar. 23, 1949. For text, see Department of State *Bulletin*, Apr. 3, 1949, p. 432.

C) US however does not believe it can advise Shah re dismissing Mosadeq. We wld like to point out however regardless rights or wrongs of matter, it is clear there can be no solution Iran's most pressing problems in absence oil settlement and it appears there can be no settlement with Mosadeq. (Dept's suggestion for line to be taken re Mosadeq's successor contained Deptel 2682 May 24.[5])

Figures in para 2 above FYI only. Comments Emb Tehran and London will be appreciated.[6]

ACHESON

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[5] See footnote 2, Document 175.

[6] On June 4 the Embassy in London responded that American officials there agreed with the policies outlined in telegram 2742 to Tehran, but suggested that the United States insist that the Iranians first settle the oil dispute before they were given substantial increases in economic and financial aid. (Telegram 5510; 888.10/6-452)

No. 178

788.13/6-652: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET **PRIORITY** TEHRAN, June 6, 1952—6 p. m.

4736. 1. During casual conversation which I had with Ala on June 4 he told me that Shah had already requested Mosadeq in view of delicate situation of country to return to Tehran immediately after latter had completed presentation of Iran's case at Hague (see paragraph 6 Embtel 4609 of May 28) and that Mosadeq was expected arrive in Tehran about June 13. Ala said shortly after Prime Minister's arrival Majlis and Senate would probably be called upon to give government vote of confidence and Shah was seriously considering advisability of exerting his influence as discreetly as possible to bring about vote lack confidence. Ala therefore would like see me in nearest possible future to discuss further various points reached in our conversation of May 27.

2. I met Ala June 5 his office. Ala said that questions uppermost in mind of Shah and his advisers were:

a. Would British assume conciliatory attitude towards new government if latter should endeavor in reasonable and friendly way reach quick agreement regarding oil problem?

b. Even if British should prove conciliatory it might take some time before agreement could be negotiated and funds from oil would be made available to Iranian Government. How could new government finance itself during interim?

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[1] Transmitted in two sections; repeated to London.

c. If British Government should not be conciliatory and efforts new government to find reasonable and fair solution oil problem should fail what would happen to new government and Iran in view present financial situation? Shah was hesitating in view his lack knowledge as to what Brit or US might do to make move which might result in Mosadeq's involuntary resignation because he and new govt might find themselves in impossible financial situation with govt bankrupt and no financial relief in sight. Mosadeq and his supporters cld then claim that they had worked out plans for saving country from financial ruin which they had been unable put into effect because with backing of Shah they had been ousted by govt which had no solution to offer. Ala asked if there was any hope whatsoever that US wld be willing assist new Iran Govt financially in case that govt shld take what US wld consider as reasonable attitude re oil problem and shld make honest effort bring about quick solution that problem.

3. I told Ala so many factors involved in hypothetical situation presented by him I cld not give categorical answer. Said I had reason believe however that if present or future govt shld adopt course of action which wld make it clear that Iran itself was doing all that it reasonably cld be expected to do in order to finance itself from its own resources, including oil, US Govt wld do what it cld in circumstances save Iran from collapse. I then outlined to Ala points A, B and C of Deptel 2742 of May 30. In so doing I made it clear that I was merely giving him what I understood to be way in which US Govt was thinking at present time. US Govt was of course not in position to make any commitments re what it might do in situation which might involve unanticipated factors. Ala expressed appreciation and asked if I wld object if he wld pass on to Shah who is at present on Caspian Sea for weeks "rest" what I had told him. I replied in negative and said I would be glad to discuss matter myself with Shah on his return in case latter shld desire me to do so.

4. Reverting to problem of who successor of Mosadeq might be, Ala referred particularly to Hakimi, Qavam and Mansour. He said that there was strong feeling in Senate that situation of country made it necessary for some widely respected personality of broad experience to take over as PriMin and to bring into his cabinet other political leaders also of imposing stature. If, for instance, Hakimi shld come into power he might bring into his cabinet people like Mansour, Rais (former MinFonAff in Razmara cabinet), Djam, etc. I said that I had heard that Qavam was reputed to dislike having imposing figures about him, he was to want only "yes men" in his cabinet. Ala said he thought I had been correctly informed. If Qavam shld become PriMin cab might be made up of comparatively young so-called "technicians" rather than elderly statesmen. Ala said he had noticed me talking with Hakimi on pre-

ceding evening and he wondered what kind of impression Hakimi had made. I said that it had been difficult for me to believe that Hakimi was really 82 years old. He seemed to me to have energy and alertness of well-preserved man of 65. Ala said Hakimi was continual surprise to his friends because of his excellent physical condition and mental alertness.

During recent trip of Shah to Shiraz Hakimi had shown more stamina than most younger men in Shah's party. For first time Ala spoke in rather favorable way of Qavam. He also said Shah had been impressed by Mansour during his recent convs with latter. Altho Mansour had been charged with public dishonesty in his past career these charges had never been proved. Ala asked what my impression had been of Mansour during my various convs with him. I said that I not in position to adequately judge but if Mansour had ability to put into practice what he preached he shld make excellent PriMin. I cld not but wonder however why in his last term as PriMin he had not accomplished what he now said shld be done. . . .

4. [*sic*] I asked Ala whether Shah had yet tentatively worked out manner in which change of govt might be effected. Ala said no. Great pressure was being brought to bear on Shah however to decide at once who new PriMin was to be and to permit several of his most trusted advisers know what his decision was so that plans cld be made in advance for selection of new cabinet and so that feelers cld be sent out re solution of oil dispute. Ala said he wld talk to me again within next few days in case any kind of definite decision was made. Altho Shah is apparently seriously toying with idea of making move to get rid of Mosadeq and altho he is beginning to realize that his prestige is suffering because he has permitted sit of country to deteriorate over such long period without intervention, nevertheless he has in past shown himself to be so indecisive and cavilling that we cannot assume in advance that he will not find some excuse for failing to take action.[2]

5. For last two months supporters Qavam have been trying make arrangements for us to meet. They have made numerous suggestions that I see him at house of some mutual friend. I have refused however to call on him or to meet him in some ostentatious way because it was clear that if I shld do so impression wld be created I was supporting his candidacy. Furthermore I have turned down categorically suggestions that I meet him surreptitiously. Arrange-

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[2] On June 9 the Department informed Henderson of its satisfaction with the manner in which he had handled the delicate matter of selecting a successor to Mosadeq and told him as well that it was still unenthusiastic about the candidates. (Telegram 2810; 788.13/6-652)

ments have finally been made through Turk Amb for Qavam and myself to meet at a dinner arranged at Turk Emb this evening. Other important Iran polit leaders including Ala, Hakimi, Mansour and Rais will also be present. Furthermore Dutch and Belgian Mins have been invited. This is first time in several yrs Qavam has appeared anywhere socially and his supporters are extremely anxious that he will impress his fellow guests with soundness of his mental and physical condition. I doubt that any polit convs can take place at dinner this kind but shall report to Dept re my impressions.[3]

HENDERSON

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[3] In telegram 4812, June 12, Henderson reported that he had dinner with Qavam on June 10 and was favorably impressed with this elder Iranian statesman, especially with regard to his good mental and physical condition and his stated desire to come to an understanding with the British. Henderson reported his findings to Middleton on June 11.

Henderson also reported that the Shah had returned unexpectedly from his Caspian Sea resort to Tehran; that he (Henderson) had a conversation with Ala to ascertain the reason for the Shah's return; and that Ala had told him that he, Ala, had again urged the Shah to pick a successor to Mosadeq and to implement plans for Mosadeq's downfall. Ala also told Henderson he had based his argument for rapid action upon the fact that the country's financial condition was perilous, and that the Shah should seek a change to avoid blame for a possible catastrophe. (Telegram 4812; 788.13/6-1252)

No. 179

Editorial Note

In response to the Government of the United Kingdom's application, on May 26, 1951, to the International Court of Justice to institute legal proceedings against the Government of Iran for its nationalization of the Anglo-Iranian Oil Company's holdings, the International Court of Justice conducted public hearings on the dispute at The Hague, June 9-23, 1952.

At the initial session on June 9, Prime Minister Mosadeq appeared to present arguments of a moral and political nature to justify Iran's nationalization of the Anglo-Iranian Oil Company's properties. Henri Rolin, Professor of International Law at Brussels University, presented the legal arguments on the question of the International Court of Justice's competence in the case at subsequent hearings and requested the Court to declare that it lacked jurisdiction in the case and to find that the British claims were inadmissible.

The Court heard Sir Eric Beckett, Legal Adviser of the British Foreign Office, and his assistant, Sir Lionel Heald, on behalf of the

Government of the United Kingdom. They, in turn, requested the Court to declare that it had jurisdiction to entertain the United Kingdom's claim that in nationalizing its oil industry, Iran had violated its treaty obligations to the United Kingdom and had therefore acted illegally.

Materials regarding these hearings are in file 788.13.

No. 180

888.10/6-1152: Telegram

The Secretary of State to the Embassy in Iran[1]

TOP SECRET PRIORITY WASHINGTON, June 11, 1952—7:50 p. m.

2835. 1. Dept appreciates views set forth ur 4769[2] and concern you express re Brit attitude is to some extent shared in Dept. From conversation with Brit, we believe, however, statement Brit conditions contained Deptel 2788[3] makes Brit position appear more rigid and less compromising than it in fact is. Conversations with Brit here and in London have made basic Brit position fairly clear; namely UK need for Iran oil substantially diminished by success alternative arrangements, and commercial incentive to settlement is, therefore, not as strong as few months ago. Main incentive is polit and Brit are not willing jeopardize Brit commercial arrangements neighboring countries and Brit prestige throughout world solely reach agreement which wld stabilize Iran situation. They, therefore, insist that any deal which may be worked out with Iran not be of nature which wld serve as temptation to other countries.

2. Indications are Brit are considering various alternative plans, including possibility of an interim settlement which wld defer decision on some of more difficult issues such as compensation, with the thought if the operation cld be started once again details of a long-term arrangement cld be worked out in better atmosphere. Fol comments, however, reflect Dept's thoughts upon proposals set forth in Deptel 2788.

3. As regards Brit participation in direction of managing agency which might be appointed under long-range agreement to operate

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[1] Repeated to London. Drafted by C. Vaughan Ferguson and Rountree and approved by Berry.

[2] In telegram 4769, June 9, Henderson expressed concern over the lack of a British conciliatory attitude. He informed the Department that the British position appeared "to indicate that no matter how unequitable to Iran old AIOC agreement might have been Iran could have no hope at least in foreseeable future of obtaining any more equitable treatment." (888.10/6-952)

[3] Not printed. (888.10/6-552)

Iran oil industry under contract to NIOC, we do not believe Brit wld insist that there be majority Brit participation but rather that there be some Brit element in higher echelons as well as at purely technical level. We wld agree with Rieber that in long-range settlement industry cld probably be operated without any Brit technicians and Brit concern in this question relates largely to questions of prestige and psychological repercussions elsewhere if Irans succeeded in operating industry after having expelled all Brit personnel. While Dept has not taken position Brit technicians essential in long-range settlement, it does believe any contract or agreement which specifically excludes Brit from any role in operation wld be more than we cld reasonably expect Brit accept. Moreover, as practical matter if large-scale production is to be achieved within reasonably short time after agreement, we believe it wld be essential that at least some Brit technicians be employed. Dept hopes that in any agreement fact that Brit might be used in managerial positions need not be highlighted but wld simply come within gen principle that Brit employees wld not be excluded from operation.

4. Re compensation, Dept understands Brit position to be that even though commercially feasible arrangement might be made with Iran and thus one within formula which wld not otherwise upset concessions elsewhere, fact that Iran had acquired ownership Brit properties wld compel injection element of compensation. Since Irans presumably are unable pay compensation in absence new arrangement for disposal of oil, new agreement wld be essential element in determining compensation. Presumably, therefore, amt of compensation per se to be paid wld be estabd in light net loss to Brit by virtue changed situation. Since amt cld be determined only with knowledge of what difference is, it is difficult see how compensation can be determined in advance negots upon entire settlement.

5. As regards 50-50 formula, while considerable importance attached to this principle, fact is that it can cover variety of arrangements as we well know based on differences which presently exist throughout ME. Any agreement with Iran wld be for sale of given product at given prices rather than sharing of profits and there wld be considerable latitude in arrangements which cld be worked out. 50-50 formula wld be used primarily as standard against which final agreement on price cld be measured rather than as substantive pt which must be agreed upon. Since Iran as owner of properties wld be in position do what it chose with proceeds and if latter not reapplied for development, etc., Iran share wld be in excess 50-50. Essential fact is Iran oil must be competitive and regardless rights or wrongs present dispute, Irans will not be able to sell their oil at premium markedly out of line with gen ME picture.

Brit condition that Irans must not receive more favorable treatment than they wld have if they had not expropriated AIOC properties shld not therefore cause undue concern.

6. Dept does not believe length of contract major issue although if compensation is to be paid, as seems inevitable, in free oil, it is difficult see how it cld be done in less than 15 years without seriously overburdening Iran. We have no reason believe Brit wld insist on any longer period.

7. Dept concurs desirability discussing matter frankly with Middleton. It is hoped while he is in London he will urge upon Brit Govt (a) necessity for preparing negot realistically with Iran Gov immed upon installation new Govt (see Deptel 2810 June 9, to London as 6480,[4] re proposed msg from Brit to Shah this connection), (b) importance that Brit proposals, especially those relating to Brit technicians and finan arrangements, take fully into account Iran sensitiveness and limitations upon what any Iran Gov can do. It is hoped also that Middleton will realize desirability if necessary of US, under conditions outlined Deptel 2742,[5] rendering interim finan aid to Iran Gov sincerely desirous of settling oil controversy.

8. FYI, re para 9 reftel, although you will note from foregoing Dept has no assurance as to how flexible Brit will be re negot, we believe it possible within framework proposals discussed to find solution which shld be acceptable to any reasonable and realistic Iran Gov. If this is not the case, however, we have not taken position US wld not render aid Iran Gov which gives evidence its reasonableness in absence their "capitulation" to Brit although we wld like to have Brit agreement before doing so. Only solution to problem will be through adoption conciliatory attitude both parties, and US position shld be to press both sides to this end. Believe line set forth Deptel 2742 on this subj can be conveyed to Shah and other trusted Irans as contemplated.

ACHESON

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[4] See footnote 2, Document 178.

[5] Document 177.

No. 181

788.13/6-1352: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET PRIORITY TEHRAN, June 13, 1952—3 p. m.

4837. 1. When I arrived palace morning June 12 to call on Shah I found Ala awaiting me (Embtel 4812 of June 12).[2] He said he hoped I wld not hesitate impress on Shah necessity for urgent action. He feared that Shah who had seemed quite resolute two days ago was again weakening and becoming indecisive. He knew that I had been consistently refraining from doing anything which might be considered as interference in Iranian internal affairs. Nevertheless, he thought I wld be doing Iran service if I cld say anything which wld encourage Shah to assume more decisive attitude at this moment so critical for country.

2. At beginning my conversation with Shah I referred to msg which he had sent to me through Ala and said I failed understand how Shah cld have obtained impression that US Govt or I was supporting Mosadeq. Mosadeq had been named by Shah as Prime Minister and his nomination had been approved by Majlis. I had considered it my duty to endeavor to maintain as friendly working relations as conditions wld permit with Prime Minster of Iran. During my numerous conversations with Shah I thought that I had made it clear to him that in opinion US Govt and of myself Mosadeq's policies were pushing Iran toward ruin. Furthermore, I had also not hesitated in my various talks with Mosadeq to let him also know that in opinion US Govt and myself he was fol policies which were not beneficial to Iran.

Shah said he had thoroughly understood my attitude and had never had any doubt that I was voicing views of State Dept. Nevertheless, numerous stories had come to him to effect that US press and many Americans including some US oil companies were supporting Mosadeq. He had also heard that various American nationals in private conversations had been saying that choice was between Mosadeq and communism. He therefore had asked Ala to obtain definite statement re our attitude towards Mosadeq.

3. I then referred to remarks made by him during previous conversations indicating disappointment at amount and type of military aid which US seemed to be prepared to extend to Iran. En-

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[1] Transmitted in five sections; also sent to London.

[2] In telegram 4812 Henderson also reported that he was to see the Shah on June 12, and that he was planning on disabusing once and for all the rumor that the United States had been and was still supporting Mosadeq. (788.13/6-1252)

deavored to assure him US deeply interested in future Iran and anxious to strengthen Iran's defensive capacity. During this portion our conversation I followed line contained in para 4A-B of Deptel 2742 of May 30. He seemed to take my remarks with good grace and to be anxious to enter into discussion of country's immediate financial and political problems.

4. Shah said he deeply concerned at both financial and political situation. Apparently funds not available to pay portion of govt salaries due May 20 unless steps wld be taken which might undermine public confidence in Bank Melli. What wld happen on June 20, next pay day, no one knew. Although Mosadeq had been requested return immediately after presentation Iranian case at Hague Prime Minister seemed determined stay on for time in Europe. He might not get back until after June 20. Meantime, increasing pressure being brought on Shah to replace Mosadeq at once or encourage Senate and Majlis vote no confidence in govt. Shah did not see how he cld do anything while decision of Court still pending. If Court shld find itself competent, failure Mosadeq policy wld be clear. Mosadeq might resign or steps cld be taken get rid of him. If Court shld decide itself incompetent Mosadeq might again be hero. He likely to announce that he had won Iran's freedom, that Iran cld now sell its oil, and that in short time financial difficulties wld be eliminated. This wld not be true; Iran wld still have difficulties in selling oil to buyers who had means to transport it. Nevertheless, Mosadeq wld probably be able1with his false promises deceive public for some time and until his deceit shld become known it wld be dangerous remove him. Therefore, nothing cld be done until Court had made its decision and if decision favorable to Iran it might be impossible do anything for considerable time.

5. I stressed to Shah desperateness of present financial situation of country. I said responsible Iranian statesmen seemed now to be fully conscious of seriousness of crisis which Iran was facing. It seemed to me they were hesitating from acting because they did not know what Shah wanted them to do. I doubted that thinking Iranian leaders would believe that a favorable decision of Court would be of material assistance in helping Iranian financial difficulties. They would be quite aware that if Mosadeq stayed on and Iran should make no constructive move in direction oil settlement Iran would continue drift towards ruin. These people were looking towards Shah to show same decisiveness in this situation as he had shown in 1946 when he had ordered armed forces to clear usurpers out of Azerbaijan.[3] Prestige of Throne was high this moment. If,

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[3] See *Foreign Relations*, 1946, vol. VII, pp. 289 ff.

however, Shah allowed Iran to continue drift towards ruin without taking some action himself or indicating to statesmen looking to him so anxiously for guidance that he would not object to their taking action, confidence in Throne might ebb to such extent it would be much more difficult to rally people round it later in last minute effort to save country.

I was expressing these thoughts without having Shah's background knowledge. Shah might be aware of various factors unknown to me. Shah should therefore understand in giving voice to some of my thoughts I was not venturing to press advice on him.

6. Shah seemed troubled. He said it would not be fair for Iranian statesmen to blame him if he did not come out for removal Mosadeq at time Mosadeq might again be national hero. If he should do so Mosadeq could become formidable antagonist not only to government but to Throne. In any event Shah would be taking great risk to support replacement of Mosadeq unless he was in possession assurances that new government would receive almost immediate financial aid from UK or US. With best will in world it would take considerable time for new government negotiate and sign oil agreement with Brit. Oil problem complicated. It could not be solved over night.

Furthermore no new government could exist if it should capitulate entirely. He was convinced, for instance, that no government in Iran could live if it should try negotiate oil settlement outside framework of nationalization laws. Settlement of oil dispute might require weeks perhaps months. New government to continue to carry on might need foreign financial assistance in matter of days. Where could he obtain assurance of such assistance? If he should be instrumental in effecting removal Mosadeq, and successor government should be unable obtain foreign financial assistance, not only would that government fall, but Throne would be in jeopardy and influence those elements in Iran friendly to West would sharply diminish.

Could he also obtain assurance that British would not try drive impossible bargain with new government? What had taken place during recent months in Egypt not encouraging. Egypt in better financial position, however, than Iran; it could afford to wait. Delay in receiving financial aid and in effecting settlement oil problem acceptable to Iranian people would be fatal.

7. I told Shah he should not expect US Government to give him any fast assurances in advance of financial assistance. Attitude US people and members of Congress as events unfolded would contribute to making of US decision this respect. In my opinion this attitude would be determined by manner in which Iranian Government approached oil problem. I was convinced that if US public

and Congress should obtain impression Government Iran trying energetically and sincerely find fair solution oil dispute they would not like to see that government fall merely because it could not obtain temporary financial aid. Another factor which would influence US decision of financial aid would be attitude UK Government and public. US would not of course like to take action which would further inflame UK opinion against Iran and at same time injure US–UK relations. Government of Iran by approaching UK Govt in genuinely conciliatory spirit and with obvious desire find fair solution could greatly improve atmosphere British-Iranian relations and prepare way for necessary financial aid as well as solution oil problem.

It might be helpful if Shah could get in touch at once with Middleton and talk to him with same frankness as to me. Shah said he would see Middleton before latter departed for UK next week for conference in London but he hesitated talk to him so openly, not because he did not trust Middleton but because he afraid of gossip in London with subsequent fatal leak to press. He had had unfortunate experience in this regard last autumn. He could have no objection, however, if I should outline to Middleton what he had told me about oil problem and financial aid.

8. I said British had made it clear they preferred settle oil problem by direct negotiations and did not relish dealing through third party. Although I would inform Middleton of some of Shah's worries as expressed by him to me, I hoped he wld also talk with him frankly.

9. Shah said he had been giving considerable thought to problem of successor to Mosadeq. Seemed to be three approaches this problem:

(a) New Prime Minister to be either member National Front or someone closely associated with it. Saleh outstanding candidate this category. Saleh seemed to have progressive ideas, integrity and common sense. Saleh had made mistakes in past including experiment of collaboration with Tudeh. He thought Saleh had become wiser. Saleh might be able mold national movement, strength of which could not be ignored, into constructive force. If Saleh should go off wrong direction it would not be difficult remove him. Busheri also possibility. Busheri, however, sometimes showed opportunistic characteristics and too much under influence Kashani.

(b) New Prime Minister to be someone who could possibly work with National Front and at same time would have respect of country's leading statesmen. He thought Mansour could play this role. Mansour experienced, resourceful, persuasive and progressive. He stood halfway between nationalists and so-called elder statesmen.

(c) Cabinet headed by and composed of elder statesmen. Qavam, of course, ranked as most prominent of elder statesmen but Hakimi had almost as great prestige and had perhaps better reputation.

Elder statesman like Qavam or Hakimi could form Cabinet outstanding men of country who might help tide country over present crisis. He was worried, however, lest such government might be entirely devoid progressive ideas. It might be charged such government was pushing Iran back to 1945 or 1946. On other hand situation during those years preferable to that at present. National Front and Tudeh should, of course, join in opposing such government which might be compelled take rather repressive measures during first days its existence to maintain law and order.[4]

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HENDERSON

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[4] Ambassador Henderson informed the Department in telegram 4878, June 18, that he had spoken to Hosein Ala on June 17 and that Ala said the Shah believed that Mosadeq had to be relieved of his duties, but that the Shah was undecided upon a successor. Henderson also reported that Middleton had an audience with the Shah on June 16 and found the Shah to be as indecisive and vague as ever. (788.13/6–1852)

No. 182

Conference files, lot 59 D 95, CF 111

United States Minutes of Conversation Held by Middle East Experts on the Iranian Situation, United States–United Kingdom Ministerial Talks, London, British Foreign Office, June 24, 1952[1]

SECRET

MTL CONV-2

Present:

United States:	*United Kingdom:*
Mr. Nitze	Sir Roger Makins
Mr. Palmer	Mr. Middleton
	Mr. Ramsbottom

After today's bilateral meeting[2] a further conversation took place in Sir Roger Makins' office on Iran.

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[1] On June 22, Secretary Acheson began a trip to Europe and to Brazil to honor invitations from Oxford University, where he was to receive an honorary degree, from Mayor Reuter to lay the cornerstone of the American Memorial Library in Berlin, from Chancellor Figl to visit Vienna, and from Foreign Minister Neves da Fontoura to come to Brazil. In addition to fulfilling social engagements, Acheson and his party planned to conduct high-level policy discussions with his various hosts on a wide range of topics. One of the most important subjects for consideration in London was Iran; see Document 184.

[2] Reference is to a Ministerial talk held earlier on June 24, the minutes of which were designated MTL USUK-2. Foreign Secretary Eden reported that the British

Continued

Mr. Middleton indicated he thought Mosadeq could hang on until August. He doubted that the Shah would act before then or that the financial situation would be sufficiently acute until that time to bring about Mosadeq's downfall. He felt there was a possibility that Mosadeq might resign if the Hague Court decision were favorable, since he would be able to point to this as exemplifying his triumph and to retire in a burst of glory.

Mr. Nitze spoke of our concern regarding the financial situation which a new government would face upon assuming office. It seemed to us that this dictated the necessity of the US and the UK being prepared to move quickly both with regard to a settlement of the oil problem and to extending interim financial assistance until the oil could start flowing again. He said that we had been making preliminary arrangements in Washington so that we would have the necessary flexibility to act when the time came. He thought we could make ten million dollars a month available for six months.

Mr. Middleton agreed about the necessity of being prepared to act quickly with respect to settling the oil controversy and financing the government. He thought, however, that there was a danger in the United States extending financial assistance, since it would lay the new government open to charges that it is a stooge of the Western powers. We must try to avoid this. He thought that there were certain steps which a new government could take to improve its own position. If it could instill confidence, it might be able to attract some of the loose capital which is very much in evidence in Tehran at the present time. He also thought the note cover could be reduced. This would require Majlis approval, which might be hard to get. It would undoubtedly be opposed by the land owners, etc. The British Embassy's estimate was that such action might have some inflationary effect (roughly 20 percent). Neither the US nor the UK Embassy thought that runaway inflation would result. Even if the Majlis were opposed to a reduction in the note cover, it was always possible that the government could accomplish it by

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Government had decided, in the event of a change of government in Iran, to offer the Iranians a long-term settlement of the oil controversy based upon the establishment of a management agency composed of several oil companies under contract to the National Iranian Oil Company. The Anglo-Iranian Oil Company, under a different name, however, would be the sole purchaser of the Iranian crude produced. The British also hoped to have representation in the management agency, although the British presence need not necessarily be through AIOC. The British emphasized, however, that they were not prepared to proceed as yet beyond this broad framework, as their plans were incomplete. They thought the most difficult problem to solve would be the relationship of the management agency to the Iranian Government. Secretary Acheson suggested that further consideration be given to this proposal, and it was agreed that Nitze and Makins would pursue the Iranian problem further after the conclusion of the meeting. (Conference files, lot 59 D 95, CF 111) decree and get away with it. It might, moreover, be politically acceptable to the Majlis if it were backed by an IMF guarantee.

In response to Mr. Nitze's inquiry, Sir Roger Makins summarized the recent ministerial decisions as follows:

1. The UK would like to see a long-term settlement of the oil controversy.
2. It thought that such an agreement was within the bounds of practicality under conditions which would not give the Iranians more favorable treatment than that received by other countries in the area with major concessions.
3. The Management Agency would be under contract to NIOC, but with sufficient day to day authority to assure efficient management. It was recognized that there would be reluctance by the Iranian Government to make an arrangement which would open it to charges that it had handed over the industry to another foreign interest.

Mr. Middleton thought that there were favorable psychological factors in the situation which would work in favor of Iranian acceptance of such an arrangement. The present NIOC personnel are terrified of losing their jobs. Many are aware of their inability to operate the industry and would prefer to see a separate and independent agency which would do all the work.

Mr. Nitze asked how the British visualized the Management Agency being created.

Sir Roger Makins said that he was sorry but he simply was not in a position to go into this matter at the present time. The question required much further homework and conversations with oil companies.

Mr. Nitze asked whether the British had Shell in mind and Sir Roger replied they had no preconceived notices whatsoever.

Mr. Middleton thought that if there were a sudden change of government, it would be possible to put forward the principles of the Management Agency idea to the Iranian Government and to spell the details out later.

Sir Roger Makins intervened to say that he was not sure that the British Government would want to do this until it had made further progress in its thinking.

Mr. Middleton said that his thought was that the presentation of the general outline of a scheme for long-term settlement involving the Management Agency idea would help a new Iranian Government in preparing the way for detailed negotiations.

Sir Roger Makins reverted to the question of US thoughts on the question of the type of Management Agency which might be employed.

Mr. Nitze reiterated that we had had in mind an engineering firm. Our thinking on this problem had arisen primarily from indications which we had had of the reluctance of the major US companies to participate directly. They had all indicated, however, that they were willing to second [*send*?] personnel. He thought there were many problems to consider in choosing a company, particularly the question of its political wisdom. The wise handling of its relations with the NIOC and the Iranian Government would require all the tact and flexibility which could be brought to bear on it.

Sir Roger Makins said that the question of the reward which the Management Agency would receive is a vexing one.

Mr. Nitze agreed. If it were fixed on a percentage basis, it could soon mount up to considerable proportions. He felt a fixed fee arrangement would probably be preferable. He thought that some companies, whether oil companies or engineering companies, with contracts with the oil industry would probably be willing to do the job at a reasonable fee in view of the importance which is widely attached to a settlement of the oil controversy.

Sir Roger Makins agreed that a fixed fee would probably be the best basis.

Note: During the course of a dinner conversation at Mr. Palmer's house on June 25, Mr. Middleton told Mr. Nitze and Mr. Palmer in confidence that Mr. Eden had been in error in the meeting on the 24th in referring to AIOC as the "sole purchaser" of Iranian oil under the long-term scheme which the Cabinet had considered. The UK proposals provide that AIOC would take 85-90% of the output and have first refusal on the remaining 10-15% which the Iranian Government would otherwise be free to dispose of.

Mr. Middleton also stressed the importance of the Cabinet decision on the long-term arrangement which, he said, represented the first decision by HMG that AIOC could not return to Iran in its former capacity. Middleton thought that this was a great step forward and greatly enhanced the prospects of a settlement.

Mr. Middleton also said that a period of 15 years for the new arrangements is about what they had in mind.

Mr. Middleton said negotiations with Iran would require considerable negotiating skill. He thought that tactically it might be wise to make an initial claim for very substantial compensation and then waive the claim as part of the final arrangement. This would give the Iranian negotiators an overt success from which they could draw necessary kudos.

Mr. Nitze asked whether they had anyone in mind to conduct negotiations of this kind. He at first said no. On further reflection he thought they might use Sir Kinehan Cornwallis.

No. 183

788.00/6-2752: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET PRIORITY TEHRAN, June 27, 1952—3 p. m.

5047. 1. Had long conversation with Ala evening June 26 regarding recent developments internal political situation.

2. Ala said that Mosadeq, instead of proceeding direct to his residence following his arrival at Tehran airport morning June 24,[2] transferred himself to Ala's car and proceeded with Ala to Shah's summer palace where he talked for some forty minutes with Shah.

3. Mosadeq told Shah that Iran had made wonderful struggle during last year to obtain its freedom. That struggle had been successful; but British with their well-known tenacity were trying to strangle Iran financially in order force Iran permit British again rule country. Iranians must show that they possessed just as much determination and strength of character as British. Iran must make decision now whether or not it should continue to maintain independence even though independence meant tremendous amount sacrifice or whether it should give in to British pressure and Iranian people were to continue to live under humiliating conditions which had prevailed during last forty years. Mosadeq said he intended inform members Majlis at once that they should organize themselves so that he could submit his resignation and that he would not remain as Prime Minister even though Majlis might vote confidence in him unless Majlis should agree in advance to adopt all emergency measures which he might suggest in order enable country carry on financially until victory had been won. Mosadeq said he would also inform members Senate in similar vein. Mosadeq added that Shah himself held key to situation. Attitude taken by Shah would undoubtedly affect decision of Majlis and Senate. Did Shah desire Iran to carry on battle to victory which was certain in not too distant future or to compromise and again fall under British rule. He personally was confident of victory because he thought that International Court had been deeply impressed by ways in which Iranian case was presented; that Court would rule it had no competence; and that Iran would then be free to sell its oil. Even if Courts should rule otherwise, British could not keep Iran economic prisoner indefinitely.

4. According to Ala Shah replied that he was extremely disturbed at what he understood to be financial position of country.

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[1] Transmitted in two sections.

[2] Mosadeq was returning from his journey to The Hague.

Minister Finance had just recently outlined to him some of financial problems. Shah wondered whether or not Mosadeq really understood how desperate situation was and had remedy at hand. Mosadeq answered he knew situation was desperate but also confident that if Majlis and Senate would give him full backing country could find ways of carrying on even without foreign aid. Shah said it might be good idea for him, Shah, to call in leaders of country, explain to them situation and ask their advice. Mosadeq asked what leaders Shah had in mind and when Shah named number ex-Prime Ministers and head various Iranian political and cultural institutions, Mosadeq stated it would be useless talk with such people since they were pro-British and did not understand temper of country. Shah should talk only with leaders Majlis and Senate if he wanted competent advice. Shah thanked Mosadeq for his suggestion and said he would take it; he would call in influential Senators and Deputies, outline issues to them, explain financial situation, and seek their advice. Mosadeq suggested that it might be preferable not to stress financial difficulties. Shah pointed out Parliamentary leaders could not give him sound advice if they were not in possession of all pertinent factors. With apparent hesitation Mosadeq agreed that it might be useful for Shah to call such conference. Mosadeq then informed Shah that he would talk to him in more detail regarding problems after he had had opportunity to rest and to consult with his own advisers.

5. Ala told me that Shah still believed time had come for change in government but was troubled regarding problem of successor. Shah did not wish to incur political hostilities by choosing any one of various contenders. He would prefer that members Majlis and Senate take this responsibility themselves. At present Shah seemed believe, however, that contest had narrowed down to Qavam, Hakimi and Mansur. Shah was leaning in direction Mansur because he thought Mansur would be more palatable to National Front. Mansur, however, had little following at present in Majlis and Senate. Mansur had indicated privately that he might be willing serve in Cabinet Qavam if latter should be next Prime Minister but would not serve under Hakimi. Ala said he thought candidacy of Saleh dead for time being at least. Imam Jumeh (Hasan Emami) had told Shah that he considered Saleh out question although he would not oppose Busheri. The Imam had indicated, however, that he preferred Hakimi.

6. Ala told me that on morning 26th Kashani had called on him and, after expressing some faint praise for Mosadeq and going through motion of giving Mosadeq support, had indicated that he thought Busheri best man to succeed Mosadeq. Ala said he thought, however, that Busheri did not have sufficient backing of

Iran political leaders to achieve success as Prime Minister. Busheri might, nevertheless, be included in next Cabinet. Ala added he personally thought that Hakimi would be better selection than Qavam although Hakimi probably not so strong as Qavam. Hakimi more reasonable, more honest and would not be afraid of taking strong measures if necessary. Furthermore, Hakimi would not, like Qavam, have around him advisers of questionable reputation. Ala said he thought that within next two or three days Shah would call group influential Senators and Deputies for conference after having first consulted with Tazizadeh and several leaders of Majlis such as Imam Jumeh.

7. Even though Shah may realize time has come when he should take action, I still have considerable doubt that he has hardihood to do anything really constructive. As I become better acquainted with him I am becoming more and more convinced that he is lacking in courage and in resolution, that he is conscious of his weaknesses and that he is inclined to endeavor to conceal his true character by finding excuses for inaction and even by laying blame for past mistakes on those around him. Ala may well be scapegoat if at some time Shah might desire pass responsibility to some one else for his own vacillations regarding Mosadeq. It is likely that if Shah does call conference of influential members of two Houses of Parliament and those members advise that there should be change in government, he will make it clear that they, not he, must be responsible for such change but he would not be opposed to it.

HENDERSON

No. 184

Conference files, lot 59 D 95, CF 111

United States Minutes of the Fourth United States-United Kingdom Ministerial Talks, London, British Foreign Office, June 28, 1952, 12:30 p. m.-1:30 p. m.

SECRET

MTL USUK-4

Present:

United Kingdom:	*United States:*
Mr. Eden	Secretary Acheson
Mr. Selwyn Lloyd	Ambassador Gifford
Sir William Strang	Ambassador Jessup
Sir Pierson Dixon	Mr. Perkins
Sir Roger Makins	Mr. Nitze

Mr. Scott	Miss Kirkpatrick
Sir James Bowker	Mr. Battle
Mr. Allen	Mr. Ringwalt
	Mr. Palmer

[Here follows discussion of a British observer to the Pacific Council, United Nations facilities in Japan, relations between the United Kingdom and Egypt, and the problems associated with the establishment of a Middle East Defense Organization.]

With regard to the Iranian situation, Mr. Acheson said that the present indications are that August will be the most likely month for Mosadeq to resign, although he had seen a telegram this morning from Ambassador Henderson indicating that Mosadeq was still maneuvering to stay in power.[1] In view of the possibility of a change in Government, however, Mr. Acheson felt that it was desirable that the US and the UK should get their thoughts in order as soon as possible so that they would be prepared for any contingency. He thought that the most important questions before us are: (1) the nature and composition of the management agency; (2) the relationship of the agency to NIOC; (3) the duration, quantities and terms of settlement; (4) financing of the Iranian Government during the interim period before the flow of oil is resumed; and (5) whether we should encourage the Shah to believe that the UK is really ready to act quickly if he takes action.

Sir Roger Makins agreed that these were the most important points in the situation. He had talked over most of these matters with Mr. Nitze and told him as much as he could at the present time of UK thinking.

. . . He [Eden] felt that the US should be given all possible information regarding the UK plans. On the financial question, AIOC has cash available. He had thought at one time that it would be logical for the company to make an advance to a new Iranian Government to help it out of the difficult financial situation in which it would find itself. During Mr. Middleton's recent stay in London, he had maintained, however, that no new Iranian Government could accept such an arrangement without incurring a severe risk of falling. This made this situation more difficult.

Sir Roger Makins said that he understood from his conversation with Mr. Nitze that the US is trying to get itself into a position whereby it would be ready to advance funds to help out a new Iranian Government. While there was probably nothing that the UK Government could do toward extending direct assistance, there might be other ways in which it could help, particularly by relaxing some of the present economic and financial restrictions on Iran.

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[1] Presumably Secretary Acheson was referring to telegram 5047, June 27, *supra*.

Mr. Eden asked Sir Roger if he did not feel that the company could extend financial assistance. Sir Roger was doubtful and pointed out that quite aside from the question of the Iranian Government's financial needs, the oil industry itself would need a considerable amount of money to get it back on its feet again.

Mr. Nitze stressed that the important thing is for the US and the UK to get together and coordinate their positions. The US appreciates that the British need to retain flexibility in their tactics. It is also important that no hint regarding any conversations between us should become known to the Iranians. Given these points, however, he felt that we need a better understanding than we have at the present time of what the British views are on the "substance" and "tactics" of an oil settlement.

Sir Roger Makins felt that the British had already brought us as much up to date as they could at this time regarding their thinking on "substance". He added that "tactics" could not be definitely decided until the nature of the Government with which it would be necessary to deal were known.

Mr. Eden felt that it is important to keep the US fully informed. Although maneuverability is essential from the British point of view, we must keep in close touch on the oil settlement and financing problems. This is particularly important in view of the possibility of a change taking place by August. He suggested that further conversations, similar to those which have been going on in the past, should be held in Washington to assure that the US is kept up to date. Mr. Acheson agreed with this procedure.

Before leaving the subject of Iran, Mr. Eden reverted to the question of financing. He said the Foreign Office was in constant touch with AIOC on the question of financial aid for Iran. He would like to see the aid handled in this manner, but he was inclined to think that a new Iranian Government would probably not accept it from AIOC. As regards Mosadeq, Mr. Eden thought that he would probably not retire gracefully from office, ...

[Here follows discussion of the situation in Trieste.]

No. 185

788.13/7-752: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET PRIORITY TEHRAN, July 7, 1952—5 p. m.

98. 1. I have recd conflicting versions pol events of last two days and am submitting outline various stories told to me to enable Dept better appreciate present atmosphere here.

2. Ala told me fol this morning.

(a) On afternoon July 5, Mosadeq called on Shah personally to present ltrs resignation his govt. Conversation lasted about hour. Mosadeq not only friendly but ingratiating. He thanked Shah orally for loyal support which had been given him. He insisted Shah shld have major credit in history for such progress as his govt had achieved and expressed confidence Shah wld continue prove himself to be patriotic sovereign. When Shah asked Mosadeq what he shld say to 2 Houses, Mosadeq suggested Shah tell Majlis that it must itself choose which direction country was to go. Senate, Mosadeq added did not count. When Shah expressed surprise at this statement, referring to pertinent articles constitution, Mosadeq replied "of course you are right. I suppose I had not given proper weight to importance of Senate".

(b) Early on morning July 6 Shah called in 3 trusted advisers: Ala, Min Court; Yazdanpanah, Min War; and Senator Dashti, former Amb Egypt, one of Shah's appointees to Senate, and old friend of Shah. Shah informed them that he was about to receive "Bureaus" of Senate and Majlis (Bureaus composed of officials of these two bodies) in order to ask them to help him ascertain what inclination of 2 Houses might be re resignation Mosadeq or appointment possible successor. Shah said he wanted absolutely frank advice. All three advised Shah strongly that financial situation of country was desperate; there cld be no relief in sight so long as Mosadeq continued as PriMin; and therefore Shah in talking with two Pureaus shld make it clear that he thought it wld not be in interest country for Mosadeq to be reappointed. Shah asked if in opinion these three advisers Mosadeq had majority in Majlis or Senate. They replied that they were confident he could not obtain majority in either House. Shah expressed some doubt as to soundness their advice. He said he thought Mosadeq still had powerful hold on sympathies Iran people; that demonstrations in Abadan, thousands communications which had been recd from orgs all over country asking for reappointment Mosadeq, agitation in Tehran bazaar, etc., caused him to believe that Mosadeq was not so dead politically as his pol enemies insisted. He did not know how many members Majlis had signed petition favoring Mosadeq's reappointment but he thought that possibly petitioners represented almost majority. If he shld make statement indicating his desire that Mosadeq not be reappointed he might outrage popular sentiments of country and might even find majority Majlis against him. Therefore he thought he shld be cautious in his talk with Bureaus 2 Houses. He shld probably limit himself to pointing out that country was financially in desperate sit; and that time had come for constructive measures. Apparently Shah had been influenced by Mansur, one of "middle of road" candidates for PriMin, who had been advocating that new govt shld take position that Mosadeq had accomplished much for Iran; that new govt shld not do anything which wld nullify Mosadeq's achievements but shld fol constructive policies based on foundations laid by Mosadeq.

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[1] Transmitted in three sections; repeated to London.

(c) Shah dismissed Senator Dashti and asked Ala and Yazdanpanah to remain with him while he talked with two Bureaus jointly. Shah spoke slowly, choosing his words with great care. He spoke as he had said he wld of accomplishments of present govt; but he became more specific than had been anticipated by stating that nationalization of oil had been in interest of Iran and constructive steps which must be taken for improvement of Iran economically shld be based on this nationalization. Shah went on to emphasize deplorable financial sit of country and to insist that any govt coming into power shld endeavor to obtain revenues from Iran oil, to elevate living standards, and to promote social justice. Shah suggested that Senate and Majlis cooperate closely so that there shld not be any differences in their recommendations to him. He pointed out he wld be placed in awkward position if there shld be differences in recommendations of 2 Houses. Both shld therefore give careful consideration to this important prob and shld confer with one another before deciding upon recommendations. Two Bureaus decided while at Palace they wld meet each other morning July 7 after informal convs with members their respective Houses in order work out common recommendations.

(d) No one present, including Shah seemed to have any idea that Majlis wld move more rapidly than Senate. Shah was therefore astonished when he heard late in afternoon that Majlis in secret session without further consultation with Senate had decided by vote 52 out of 65 that Mosadeq was their preference to succeed himself. Ala was of opinion Senate would follow Majlis' lead, particularly since Shah had indicated it was important that two Houses not disagree.

3. While I was talking to Ala, Bayatt, Pres pro tem of Senate in absence Taquizaden who had gone abroad, telephoned Ala stating that Senate had made its decision and he was preparing to convey document setting forth Senate's decision to Shah. Bayatt was unwilling give Ala gist decision by telephone but said effect was to place responsibility on Shah.

4. Ala seemed distressed at developments which had resulted in expression Majlis in favor Mosadeq. He said he was afraid that Shah wld be heavily censored by opposition; that he wld be accused of weakness, and that he wld lose considerable prestige. I laughed and said two other people wld also probably be blamed—he and I.

He wld be accused of failing sufficiently to encourage Shah to take action, and I wld be charged with failure to intervene with Shah against Mosadeq. I said that I had been placed under great pressure by various groups "to use my influence with Shah" to prevail upon him to dismiss Mosadeq. My apparent failure to intervene with Shah to extent desired wld certainly be construed by many members opposition as support for Mosadeq. Ala asked if in my opinion retention of Mosadeq wld be harmful to Iran. I said that I thought that so long as Mosadeq remained in power there was little chance of settlement of oil problem and in absence of such settlement Iran wld continue to deteriorate finan and polit. Ala asked if in my opinion Brit wld be willing again to negot with Mosadeq. I said I cld not speak for Brit but I thought that British, wld be willing to negot provided Mosadeq wld make it clear that he had altered his position re possible terms settlement. I was confident Brit wld not negotiate with Mosadeq unless they had reason believe previous attitudes expressed by him had undergone change. Ala said he wld try persuade Mosadeq now that latter had won polit victory to be more reasonable re oil problem. I replied I afraid that no amt persuasion wld have effect. It seemed to me Mosadeq's ideas on settlement were permanently fixed.

5. Following my conversation with Ala I saw Middleton, who showed me several telegrams which he had sent during last two days to London. Considerable part of Middleton's information apparently came through new President Majlis, Imam Jumeh. According to Middleton's information:

(a) Imam maintained that he had told Shah he was in favor Qavam and Shah had indicated Qavam would be acceptable to him. On morning July 6, just before Shah had met members of two bureaus Shah had had private conversation with Imam during which he had insisted that Majlis disclose its inclination regarding Prime Ministership immediately, and although Imam had argued that haste in matter would be in favor Mosadeq, Shah had taken position that country could not remain in suspension and that decision should be taken without delay. Therefore, Imam could give no interpretation to Shah's instructions other than that Shah really wanted Mosadeq returned as Prime Minister. Same interpretation apparently was placed on Shah's subsequent words by others present and also by Majlis who voted overwhelmingly for Mosadeq. (Similar impression obtained today from this Embassy's sources).

(b) Shah had also intimated to Imam Jumeh that it not impossible both Brit and Americans were really in favor reappointment Mosadeq. In response to Jumeh's inquiry regarding British attitude British had reassured him on this point.

(c) On evening July 6, according to sources considered reliable, caucus of Senators opposed to Mosadeq was interrupted by appearance of Human, Deputy Minister Court, who personally is extremely anti-Mosadeq. Human in apparent distress told Senators that

Shah had asked him to request them to vote unanimously for reappointment Mosadeq. When Senators in anger asked Human why His Majesty had sent such a message Human said he could not answer, he was merely acting on instructions of Shah.

6. While I was talking to Middleton, Senator friendly to British Embassy by telephone that despite pressure brought by Shah on Senators to follow lead of Majlis Senate had resolved that since Mosadeq had already announced outline his program and since Senate had not had opportunity to study it, Senate did not believe it should make any recommendations regarding reappointment Mosadeq until it had learned more about it. On my return to American Embassy I found our political section had received identical information regarding temporary decision of Senate.

7. We are inclined believe there was sufficient sentiment in Senate against Mosadeq to give it courage not to vote today in his favor but Senate not bold enough to vote against him in face Shah's desire that it follow lead of Majlis. Senate therefore followed typical Persian expedient of procrastinating and gaining time by taking action indecisive character.

8. Although it difficult to draw conclusions from present complicated situation, we are reluctantly coming to conclusion that Shah has been taking different attitudes when talking to different people; that he is not happy with Mosadeq but distrusts Qavam such extent that he would prefer that Mosadeq stay on rather than that Qavam become Prime Minister and that he has not enough moral courage frankly to say that he is opposed to Qavam. I am somewhat at loss to understand how after all my statements to Shah he could still intimate that Americans (and now even British) might be secretly supporting Mosadeq. Undoubtedly one reason has been inability of Middleton and me to give any definite assurances as to what our respective governments would be willing to do to assist successor to Mosadeq to survive financial crisis which he would inherit or to facilitate solution oil problem. There is also possibility that Shah is trying to transfer some of blame for his own inaction to shoulders British and Americans.[2]

9. We have heard from various sources that Queen Mother's anger against her son for "his weakness" has reached new heights and that Princess Ashraf, who returned to Tehran yesterday, is so furious at what has happened that she has suffered "heart attack".

HENDERSON

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[2] Ambassador Henderson reported on July 8 that the Shah had decided the previous day to reappoint Mosadeq Prime Minister without waiting for the Senate to express its inclination. Accordingly, he summoned Mosadeq and informed him that he was initiating measures to rename him Prime Minister. (Telegram 108; 788.13/7-852)

No. 186

788.13/7-952: Telegram

The Ambassador in the United Kingdom (Gifford) to the Department of State[1]

TOP SECRET LONDON, July 9, 1952—7 p. m.

153. In conversation today, FonOff expressed extreme disappointment at way events have transpired last few days in Iran, but derived some satisfaction from agency msgs that large number of senators had abstained on vote of inclination, which FonOff feels indicates that opposition to Mosadeq still basically strong in Senate. . . .

Embassy officer referred to Henderson's comment (para 8 Tehran's 98, July 7) that his inability and that of Middleton to give any definite assurances to Shah re our intentions on financial problem and oil settlement were undoubtedly instrumental in Shah's current attitude. Embassy officer felt that Shah wld probably be unable move until we were in position say something to him on this score. FonOff official then suggested that UK might be able get itself into negotiating posture soon and to give Shah indication that it wld be willing negotiate a long-term settlement along management agency lines with a reasonable successor govt. Suggestion to this effect now being considered by FonOff. If this cld be done, did Embassy officer then think Dept wld consider intervening with Shah to encourage him replace Mosadeq?

Embassy officer said he cld not, of course, judge what Dept's reaction wld be. He felt there were two important elements, however, which wld enter into Dept's decision:

1. Dept wld undoubtedly want to know much more re proposals which UK wld put forward in negotiations and their likelihood of success. He recalled five points which Secretary had mentioned in fourth bilateral as type thing on which we wld have to have more detail.

2. Secondly, there was question of timing. If Mosadeq accepts Shah's firman and forms new govt, he will undoubtedly enjoy initial recrudescence of strength. Until that strength begins dissipate again, it wld seem unlikely Shah, judging by his recent actions, wld feel himself able to move against Mosadeq even if definite assurances received from US and UK re intentions to successor govt. Question of timing therefore wld be most important one and, in this connection, verdict of Hague Court wld probably have important bearing, since Iran victory wld undoubtedly give Mosadeq another popular boost. FonOff official said re first point that FonOff now actively studying points raised by Secretary and hopes be in

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[1] Repeated to Tehran.

position shortly communicate its views through British Embassy Washington. It is also giving further consideration to Nitze's suggestion for management agency unconnected with oil industry. It will be unable give Dept its further views on these questions, however, until discussions have taken place with AIOC. (In reply question by Embassy officer, FonOff official said he did not think even Cabinet approved decisions on principles long-term settlement had yet been discussed AIOC.) Re second point, official agreed question of timing wld be important. He expressed optimism re Hague Court either accepting jurisdiction or agreeing to hear merits of case before passing on question of jurisdiction. Either wld be victory for UK.[2]

Comment: Foregoing optimism re Hague Court decision at variance with reliable but confidential indication we have had that Sir Eric Beckett very gloomy re UK's chances of obtaining favorable decision. We understand verdict now not likely until end of this month.

GIFFORD

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[2] On July 11 the Department cabled its complete agreement with the Embassy's position regarding future policy in Iran. (Telegram 262 to London; 788.13/7-952)

No. 187

Editorial Note

On July 22, 1952, the International Court of Justice supported the claim of the Government of Iran, by nine votes to five, that the Court was without jurisdiction in the Iranian oil nationalization case. For the Court's opinion, see International Court of Justice, *Anglo-Iranian Oil Co. Case (United Kingdom* v. *Iran)*, Judgment, July 22, 1952.

No. 188

888.2553/7-2652: Telegram

The Secretary of State to the Embassy in the United Kingdom[1]

SECRET NIACT WASHINGTON, July 26, 1952—6:07 p. m.

585. Tehran tels 387 July 25[2] and 390 July 26[3] rptd London as 136 and 138 have been considered here together with texts of two Brit msgs referred to by Henderson which give further details of Mosadeq proposals. Request you inform FonOff our views are as fols:

As a result of the events of the last week, it appears to us that Mosadeq is clearly in a stronger position vis-à-vis the Shah, the Majlis and the public now than at any time since the nationalization of Iran oil in Apr 1951. The Hague Court decision coinciding the Mosadeq's return to power will further strengthen his public position. His position with respect to more radical elements within the National Front, including Kashani, and with the Tudeh may, however, be weaker than before.

It appears that our worst fears as to the weakness of the Shah have been confirmed, that the Shah has been discredited and that it is highly unlikely that any other constructive polit elements will attempt to exercise power in Iran after what has happened to Qavam and that if they did, it is highly unlikely that they cld succeed. We therefore believe that if Mosadeq were to lose power, there is far greater risk that he wld be succeeded by a group further to the Left than by a more constructive group.

Under these circumstances, it appears to us that there are three possible courses of development which we can look forward to in Iran:

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[1] Repeated to Tehran. Byroade drafted it, cleared it in draft with Nitze and the Secretary, and approved it for transmission.

[2] In telegram 387 Ambassador Henderson reported that Mosadeq on July 25 had suggested to Chargé Middleton that in return for certain British economic or financial aid, he would be willing to arbitrate the compensation aspect of the oil dispute and to sign a contract with AIOC to allow it to distribute Iranian oil abroad. Henderson told Middleton that he hoped the British Government would not reject these proposals prior to discussing them with the United States. Henderson also thought Mosadeq's approach represented the last opportunity for the United Kingdom to salvage a settlement which would offer the prospect of compensation and would allow AIOC to act as a distribution agency for Iranian oil. (888.2553/7-2552)

[3] In telegram 390 Henderson informed the Department that he had ordered the Embassy staff to refrain from making any comments which could be interpreted as hints by the Iranians that the Embassy or the U.S. Government would welcome the opportunity to play a further role in settling the oil dispute. (888.2553/7-2652)

(a) The first wld be a settlement of the oil question somewhat along the lines outlined by Mosadeq in his most recent approach to Middleton;

(b) A gradual breakdown of the boycott on Iran oil shipments with the quantities of oil purchased by independents around the world gradually increasing and with the NIOC gradually obtaining increasing technical assistance from various engineering consulting firms. (While this course of development might eventually result in Iran being persuaded that it cld neither sell or produce sufficient oil to satisfy its financial requirements without a long term purchase arrangement with AIOC and without more definite provisions for management and engineering advice, such an eventual outcome wld probably take a long time to develop); and

(c) A continuation of present trends without any easing of the oil deadlock. It is hard to foresee how this wld end up but it wld appear that the risk of a further trend to the Left and the eventual loss of Iran wld be very great indeed.

In the light of this analysis we believe it wld be a great mistake to reject Mosadeq's overture. It seems to us plain that course (a) above is unfortunately the best; that course (c) is quite unacceptable to the West; and therefore that, if course (a) cannot be developed, course (b) becomes almost inevitable in spite of the disadvantages inherent in it.[4]

ACHESON

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[4] On July 28 the Chargé in London, Julius C. Holmes, informed the Department that the contents of telegram 585 had been communicated to the Foreign Office; that the Foreign Office analysis of the situation followed the same lines; and that recommendations had gone forward to the Ministers suggesting that they propose that the British Government follow up Mosadeq's offer. (Telegram 517; 888.2553/7-2852)

No. 189

788.13/7-2852: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET NIACT TEHRAN, July 28, 1952—2 p. m.

422. 1. During last two days I have recd various hints, including one from son, that Mosadeq was ready for me to call. Accordingly, I visited him yesterday evening. Our conversation, which lasted nearly two and half hours, was both exhausting and depressing. As I listened to him I cld not but be discouraged at thought that person so lacking in stability and clearly dominated by emotions and prejudices shld represent only bulwark left between Iran and

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[1] Transmitted in three sections; repeated to London.

communism. As during several previous conversations, I had feeling at times that I was talking with someone not quite sane and that therefore he shld be humored rather than reasoned with. On occasions he resorted to such silly exaggerations and extravagances it seemed almost useless to talk further. At one point I almost decided to abandon our conv when he rptd again and again in monotone that "Iran wld never, never want UK and US to have any differences over it. Iran wld prefer go Communist than cause any trouble between US and UK". There were periods during our talk when he seemed lucid and sensible. Gen impression which he left was however one of deterioration. I have noticed in past that in evenings he is likely to be more tired and to have less control over his emotions. I can only hope his behavior last evening was due to strain of recent events and fatigue and does not indicate serious degeneration.

2. I shall not attempt to outline conversation but will merely touch on those portions which seem to me to be more important and which may enable Dept have better understanding his present frame of mind.

3. He recd me in usual friendly manner. I began substantive portion our conv by saying that during recent days there had been circulated so many defamatory stories re US policies in Iran and partic US relations with Qavam that it wld be useless for me to try deny all of them. I thought however it might be helpful if, in strictest conf, I shld describe to him briefly what attitude US Govt had been towards Qavam and let him understand character my personal relations with Qavam. I said I had seen Qavam twice before he became PM; once at dinner at Turk Emb and on another occasion at dinner in house mutual friend. During such talks as I had had with him he had not appealed to US to support him either directly or indirectly. Although some his friends had at times asked Emb use its influence on his behalf I never had had any indication that Qavam was aware of these approaches to Emb. It seemed unnecessary for me to add that Emb, in pursuance instrs from US Govt, had never directly or indirectly endeavored support Qavam or other Iranian as PM. Stories that Amers had by some sort intrigue brought about resign Mosadeq and appointment Qavam were so ridiculous that I failed understand how intelligent Irans, even in this emotional period, cld credit them. These stories were being circulated either by people who had completely lost their ability to reason or by enemies of Iran who desired undermine Iran's independence by impairing relations between Iran and US. I said day fol appointment Qavam as PM he had sent msg to me asking that US give Iran finan aid to enable it to meet outstanding urgent indebtedness, including unpaid govt wages and salaries. Qavam in

this msg asked me see him on fol day, July 19. During immediately ensuing conversation with Qavam he had told me that he hoped achieve oil settlement in not distant future on basis which wld result in augmentation Iran's revenues and which wld not in any way mean sacrifice Iran's rights or sovereignty. Pending resumption receipts from oil industry Iran needed finan aid to tide it over present finan crisis. I said I had told Qavam that I did not know whether US had available funds which cld be used for giving finan aid to Iran. If such funds not available it wld be extremely difficult to render aid for sometime as Cong not in session. I had added that even if funds shld be available US in my opinion cld render aid only in circumstances in which offense wld not be given to public opinion of US, UK and Iran. I had informed Qavam that he shld understand that it wld not be interest free world, incl Iran, for differences between UK and US arising from extension US finan aid Iran to weaken world security structure.

Weakening this structure might encourage aggressive action on part internatl communism against countries which, like Iran, lay under its shadow. I had also told Qavam that US cld not undertake for indefinite period to extend budgetary aid to any country and that such aid this character as US might be able give Iran must be limited to several months until Iran cld have opportunity set its house in order and balance its budget with help its own resources. Mosadeq asked if I had told Qavam that I wld recommend US aid to him. I replied I had told Qavam that in view his assurances that he wld make every effort effect settlement in dispute on basis fair to both parties, and in view Iran's desperate finan situation, I was recommending that limited finan aid be given to Iran but that I had no idea what my govt's attitude re such aid wld be.

4. Mosadeq thanked me for giving above confidential info to him. He said he cld draw several conclusions. First conclusion was that US had brought pressure on Qavam to bow to Brit demands and to permit return Brit rule to Iran. I replied such conclusion entirely unjustified; US had never suggested to anyone, including Qavam, that Iran take any step which wld in the slightest degree weaken its independence or sovereignty. US has always been of opinion that Iran and Great Britain cld come to reasonable and fair solution oil problem without any sacrifice of Iran's independence. Furthermore, I had not pressed Qavam to endeavor come to understanding with Great Britain re oil. I had merely informed him of circumstances in which in my opinion US Govt might be able to give finan aid to Iran. I had in past, in informal conversations with Mosadeq, expressed myself to him similarly.

5. Mosadeq said second conclusion which he had drawn was that altho US had shown willingness give aid to Qavam on latter's re-

quest, it had refused on several occasions to give aid to Mosadeq. US therefore had showed more friendly attitude to Qavam than it had Mosadeq. I told PriMin that US Govt had not displayed more friendliness to Qavam than it wld have shown to any other PriMin in similar circumstances. Without any instrs from Wash, on my own responsibility I had informed Qavam of what I thought attitude of govt might be re extension finan aid to Iran if funds available. I had also told Qavam that I was of opinion from statements made by him that he was planning take steps which might result in rendering extension of US aid to Iran acceptable to public opinion US, Iran and UK. I was therefore recommending that if possible such aid be extended on temporary basis. On various occasions I had made it clear to Mosadeq that I personally prepared recommend that US Govt extend to Iran aid on finan basis, provided his govt cld follow policies which wld make it possible for such aid to be given without offending public opinion US, UK and Iran. I was still prepared make such recommendations to my govt, provided I had reason believe Mosadeq intended pursue policies this character.

6. Mosadeq said third conclusion he wld draw from what I had told him was that US had given encouragement to Qavam by showing friendliness to him. I replied that during time I talked with Qavam he was PriMin. As Amb to Iran of country friendly to Iran it was my duty establish friendly relations with PriMin who showed desire to have such relations. If performance such duty was be considered as improperly encouraging to Qavam, then those opponents of Mosadeq who in past had severely criticized me for maintaining friendly relations with Mosadeq, had some justification for their criticism. So long as I was Amb to Iran I intended continue maintain as friendly relations with Iran Govt in power as may be desired by that govt.

7. Mosadeq launched into bitter attack upon US foreign policy. He said US had no diplomacy. US in Mid-East was merely agent Brit. Manifestations of anti-Americans as witnessed during recent days had shown how great had been failure so-called US diplomacy in Iran. US had given billion dollars aid to Turkey and yet when Iran was bankrupt and on verge communism, it had refused finan assistance first because it feared that if Iran shld be able operate its own oil industry US oil interests in Saudi Arabia and elsewhere might suffer and, secondly, because it was afraid of Brit displeasure. I told Mosadeq that American interests in internatl oil were really of secondary nature and did not govern our policies re Iran.

Mosadeq said even certain Brit were charging that US, because of fear of effect of US oil concessions in other countries, did not wish Brit to compromise in oil dispute with Iran. I again emphasized that effects of possible settlement on US oil concessions in various parts world did not play major role in our policies re Iran. I added that in any event it did not seem likely that countries in which there were Amer oil concessions wld be tempted follow Iran's example. I had already on various occasions tried to make clear to him it wld not be in interest free world for us to give Iran finan aid in circumstances which might cause Brit and Amer public opinion to believe that US was subsidizing Iran's position re oil dispute. At this point Mosadeq began to chant that Iran wld prefer to go Communist than for US and UN [*UK*] to have differences of opinion with regard to it. Eventually, I was able to tell him that US choice was not merely between US-UK friction and Iran going Communist. I stressed that if serious misunderstandings shld develop in present world situation between US and UK, Iran wld go Communist anyway.

8. Mosadeq resumed his ridicule of Amer diplomacy. He said that decision American judge in Hague, which had given great impetus to anti-Amer feelings Iran, was good example. I said that US did not consider that Amer judge in Internatl Court was diplomat or that any judgment he might render was of diplomatic character. I was aware it quite useless to convince him that Amer judges were not influenced by executive branch govt. I doubted that anyone not educated in Amer cld understand depth Amer feeling re independence of judiciary. I had heard that Mosadeq himself was anxious separate Iran judiciary from executive branch govt. If he shld succeed, Iranians might in years to come be able believe Amer judges did not receive instructions from US Govt. I said I would appreciate it if Mosadeq wld tell me precisely what he thought Amer diplomacy shld do in Iran. Mosadeq again reverted to fact that US had given Iran no final aid in its time of need.

9. Mosadeq placed great stress on Communist danger facing Iran. He said Iranian army was no longer stabilizing factor. It was now hated by all Iranians. Iranian army, under orders Qavam, who was Brit agent, had fired on and killed hundreds Iranians. Iranian people, therefore, considered army as tool Brit. I asked Mosadeq if he, as MinWar, wld not be able by certain measures restore prestige army. He insisted too late. Nothing cld save army now. In fact, army was now danger to country since many officers and men, humiliated at their present unpopularity, might at any moment try to get back into public favor by taking leadership in revolt of Communist character. This revolt might not be fomented gradually. It might break out at any moment.

10. I asked Mosadeq if there was anything he cld tell me re future mil aid and mil missions. Various kinds rumors were afloat re his attitude on these subjects. He replied he not prepared to talk

to me at present. He wld take matter up later. Any recommendations which might be circulated had no basis. He had not discussed his intention re mil missions and aid with anyone. I said Gen Zimmerman had always maintained friendly relations with MinWar. Now that Mosadeq had war portfolio I assumed it wld be appropriate for Gen Zimmerman to call on him. He said he wld always be glad receive Gen Zimmerman "so long as mil mission was here". It was not clear to me whether he intended that this phrase have special significance.

11. Reverting to oil problem. Mosadeq described briefly suggestion which he had made to Middleton. He made no request of me and I stated that I was glad that direct conversation on subject had been opened with Brit.

12. As I was preparing depart, Mosadeq said he hoped I wld not take amiss frankness his comments to me. It had been his practice to talk on personal basis rather than that of PriMin addressing Amb. He believed his country and govt were in great danger and he cld not understand why US, which was supposed to be so friendly to Iran shld not show friendship by action. I told Mosadeq that US was in many ways trying to help Iran. He laughed and said if we were really trying assist by other than words, we were certainly succeeding in hiding our helpful activities.

HENDERSON

No. 190

788.13/7-3052: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET PRIORITY TEHRAN, July 30, 1952—4 p. m.

460. 1. I sent msg to Mosadeq yesterday morn that at his convenience I wld like talk with him again. We had therefore another long conversation last evening. I found him more composed than usual. Altho showing emotion at times, he did not engage in extravagances and he made relatively few wild statements. He was apparently endeavoring to restore personal relations of cordial character.

2. I opened conversation by saying I was unhappy at pessimism which he had displayed during our previous talk. I considered him personally only bulwark existing at present between Iran and Communism. I was hoping therefore that statements which he had

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[1] Transmitted in three sections; repeated to London.

made to me during previous conversation to effect that Iran army "was finished;" and that in view finan and econ sit Iran was almost inevitably drifting towards Communism did not really represent his sober views. He had exhibited so much courage in past difficult sitns that it was difficult for me believe he had become as pessimistic as his attitude during our last talk wld seem indicate.

3. Mosadeq said he was really deeply concerned at sitn. Army seemed almost hopeless. He had been looking for reliable chief staff to replace Yazdanpanah but thus far he had been able find no one who was both capable and trustworthy. Most Iran gens venal and out-moded. Officers of lower rank did not have prestige which chief of staff must enjoy. Altho it might sound immodest he agreed that he personally at present was only effective barrier in Iran against Communism. No NF leaders were pro-Commie but they were so jealous of each other that he did not know what they wld do or what allies they wld make if he did not have control of them. They wld take instrs from him but not from one another. Re finan sitn of country he had not exaggerated. He did not see how Iran cld carry on without finan help from outside. His govt cld begin printing bank notes but he feared that resort to such expediency wld eventually lead to inflation and to econ deterioration which Commies wld quickly exploit. For time being Tudeh activities were under control. Tudeh had however strengthened itself considerably during recent weeks and no one cld deny it represented grave threat to country's security.

4. I told Mosadeq that I realized that he was determined not to ask US for finan aid but if we were to talk frankly we shld not hesitate discuss this matter which both of us knew was foremost in his mind. What I might say during our present conversation was not based on any instrs from US Govt and shld not arouse any false hopes that US finan aid might be forthcoming. I wished during our conversation to give him better understanding of what US Governmental position had been during recent months re finan aid. Altho since end last World War US Govt had been giving large amts to various fon countries for purposes reconstruction, econ develop, or def, it had not made practice of extending budgetary assistance, even to most friendly nations, except on emergency basis. US Govt cld assist no country budgetarily unless it was in position to convince US public opinion that such assist was of merely temporary character, unless it cld show that govt to which aid was being given wld soon be able without further budgetary assist to function. US public opinion wld not tolerate US support of budget of any country on what might turn out to be permanent basis.

At time when Mosadeq had asked US for budgetary aid he had not furnished US Govt simultaneously with info which wld give it reason believe that situation which made such aid necessary was of merely temporary character. He had not submitted convincing evidence that his govt contemplated measures which wld make it possible for finan aid, once begun, to be suspended within reasonably short period without giving rise to even more severe finan crisis. US Govt had therefore not been in position to assure US public opinion and US Congress that any budgetary aid extended to Iran wld be only of temporary or emergency character. There were other considerations which had made it still more difficult for US to give this aid. Amer public, including Congress, had been of opinion that finan aid wld not be necessary if Iran wld be willing come to reasonable understanding with UK which wld permit resumption Iran oil exports. No one in US wanted Iran settle oil dispute on basis prejudicial to Iran's rights or sovereignty. Most Amers, however, have that it possible, if Iran wld assume reasonable and conciliatory attitude, for agrmt to be reached between Iran and UK which wld be to advantage of both nations as well as to whole free world. If US had rendered finan aid to Iran as requested by Mosadeq, Amer public opinion, under conditions which have hitherto prevailed, wld have charged US Govt with subsidizing unreasonable Iran position re oil dispute. UK Govt and people wld also have been resentful if, in such circumstances, US had granted finan aid to Iran. If US had granted aid, it wld have done so in face its own public opinion and wld moreover have created between US and UK rift disastrous to whole free world, including Iran. I added that during our last conversation Mosadeq had told me of Iran's desperate finan sit but had given me no info which might contribute to change in US Govt's attitude re finan aid. Only bright spot which I cld find in our conversation had been statement that Iran might be willing under certain circumstances to submit question of compensation to intl arbitration.

5. Mosadeq said there had been misunderstanding between him and Middleton re matter intl arbitration. Middleton apparently had thought Mosadeq was suggesting such arbitration whereas Mosadeq had been under impression that possibility arbitration this kind had first been mentioned by Middleton. He had always found Middleton straight-forward and had great respect for him. He therefore especially regretted that this particular misunderstanding had arisen. During his conversation on preceding day with Middleton he had felt it necessary to inform latter that he cld make no commitments re intl arbitration.

6. I told PriMin I sorry hear of this misunderstanding. Was I to assume discussions with Brit re solution oil problems had been suspended? Mosadeq said that Brit apparently were not interested in solving oil problem. Middleton had told him UK was not in any

urgent need of Iran oil and was rapidly developing sources which in short time wld make Iran oil unnecessary to Brit econ. Mosadeq was therefore abandoning any idea of coming to oil agrmt with UK. He was hoping that eventually Iran wld be able find markets other than Brit for its oil. In meantime, Iran Govt was making plans obtain revenues which wld assist in balancing its budget in total absence of oil exports.

7. I told Prime Minister that it must be clear to him that it wld be easier for Iran to realize quick revenues from its oil than from any other source. Prime Minister said that only during recent years had revenues from oil been considered as part of govt's budget. I pointed out that question was not only one of revenues from oil but also absence of customs receipts of credits from certain exchange transactions connected with oil. There was also heavy budgetary burden of supporting unemployed oil workers and of plant maintenance. Mosadeq agreed, but said he did not see how Iran cld do other at present than try to plan its budget on basis of idle oil industry.

He asked if I had any suggestions to make. I replied in negative adding that although US Govt was of course anxious that dispute which was doing great damage to free world shld be settled it did not wish to interfere. Best way for dispute to be settled was thru direct negots between Iran and UK. PM said Iran wld not take initiative and apparently UK did not desire to make any approaches. I said it might be helpful if he cld at least let me know what Iran's present position re solution oil prob was. A long conversation followed during which I asked numerous questions and recd partly evasive and partly frank answers from Mosadeq. Mosadeq was cautious and made clear he not committing himself in any way. As result our talk I have come to opinion that there is no chance of Iran Govt under Mosadeq going any further in direction of settling oil dispute with UK than under conditions somewhat as fols:

(a) Iran Govt wld operate exploitation and extraction facilities in Iran without any control whatsoever from abroad.

(b) Iran wld expect Brit and Amer Govts and intl oil cos to place no obstacles in way of Iran employing on individual basis such few fon technicians as it might consider nec.

(c) Iran wld be willing to agree to sell to AIOC or some subsidiary of AIOC most of its oil products on commercial basis. It wld not be willing however to sell its entire production to single purchaser.

(d) Iran wld be prepared submit ques of compensation to intl arbitration.

(e) Iran wld continue turn over to AIOC as compensation certain percentage of receipts from sales until such time as compensation had been completely liquidated.

(f) On conclusion of agrmt AIOC wld abandon all claims to real or movable property situated in Iran.

(g) On conclusion of agrmt both UK and Iran wld take appropriate steps restore friendship between two countries.

8. I wld like again emphasize that above shld not be considered as offer or suggestion on part any one. It merely reps conclusion which I drew during conv re conditions under which Mosadeq might be willing settle oil dispute at this partic moment. If discussions shld open on basis this kind they might lead to nothing. On other hand, they might result in surprisingly quick agrmt.

9. I asked Mosadeq what specific plans he had in mind for balancing budget in case oil indus contd dormant. He said in first place he hoped speedily to increase sugar production in Iran to such extent no more imports wld be nec. I asked if such measure wld appreciably affect governmental budget as distinguished from national econ. He insisted govt produced sugar cld be sold at considerable profit. He added govt hoped develop in immed future from its textile indus from which it shld realize increased profits. He referred to possibilities of increasing agric yield and production and added that irrigation projects and other public works in South cld absorb idle oil workers. I asked if measures for economic development wld not in initial stage rep drain on governmental budget rather than income. He said Iran economists were endeavoring work out plans whereby such developments cld proceed rapidly with minimum strain on budget. He really hoped that within year situation of budget wld be appreciably improved. He stressed, however, that likelihood of success in improving budgetary situation depended on whether some econ friendly country wld be willing give Iran temporary budgetary aid and sufficient econ aid to enable it to carry out programs, purpose of which wld be primarily increase government revenues.

HENDERSON

No. 191

788.13/7-3152 Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET NIACT TEHRAN, July 31, 1952—2 p. m.

480. 1. Regarding paragraph (a) Deptel 255, London 648, July 29,[2] I have discussed with Middleton Embtel 460, London 166, July 30.

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[1] Repeated to London.

[2] In telegram 255 the Department informed Henderson that British Embassy representatives had discussed the Iranian situation with Department officials, and it was agreed that both Embassies in Tehran should make a joint reappraisal of the situation. (788.00/7-2952)

Middleton tells me that conditions outlined in paragraph numbered 7 were almost precisely what he had understood Mosadeq to have in mind during their first conversation are possible basis for negotiations regarding oil dispute. It would seem that despite attitude displayed by him during second conversation he still has these conditions in mind. Difficulties are that:

a. Neither British nor Mosadeq are willing to take initiative in suggesting basis for possible future negotiations.

b. British may not be willing to discuss problem on basis of conditions outlined.

c. Although Mosadeq during my conversation with him gave me impression that he would be willing begin negotiations on these conditions I cannot be sure that he would not retreat if conditions were advanced in more formal way.

2. Middleton and I have agreed that each of us telegraph our governments in order to ascertain (a) whether British Government would be willing accept conditions this character as basis for negotiations provided they would be acceptable to Mosadeq; (b) whether American Government would be willing for me to ask Mosadeq if he would be willing for US Government to inquire of British Government whether or not British Government would be prepared to accept these conditions as basis for negotiation; and (c) whether, if they should prove acceptable to British Government, Mosadeq would also be willing accept them.

3. In approaching Mosadeq I would make it clear that it would be understood that neither British nor Iranian Government had taken initiative in matter, and that if question as to initiative should be raised later it could be stated that conditions had been formulated by US Government after informal consultations with British and Iranian Governments.

4. This Embassy is convinced that British will not be able in foreseeable future come to agreement on conditions any more favorable than those under reference. If new Iranian Government should, by some surprise move, come into power we do not believe that it would be able, for indefinite period, offer better terms. So long as oil problem unsolved gulf between Iran and Western world sure to widen. We therefore earnestly hope that British Government will agree to these conditions as basis for negotiations.

5. Condition (h), reading as follows, should be added to conditions listed in paragraph 7 of Embtel 460 of July 30:

"Upon commencement of negotiations on basis conditions outlined above, Iran must be accorded from some source financial assistance of temporary character".

HENDERSON

No. 192

788.13/7-3152: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET NIACT TEHRAN, July 31, 1952—2 p. m.

481. I have discussed Deptel 255, London 648, July 29[2] briefly with Middleton. Recommendations requested in (a) will be subject separate telegram.[3]

Regarding (b), we were both of opinion that at present it did not seem likely any alternatives to Mosadeq could be brought into power except perhaps by military *coup d'état*; that we knew of no outstanding military leaders with ability who had strength, standing or intelligence necessary for assuring success of *coup d'état*, and for governing Iran in case such *coup d'état* shld be successful; that army officers who seemed to be best fitted for leadership in effecting *coup d'état* were General Zahedi and General Hedjazi; that these two Generals differed to extent in their political views since Zahedi sympathized with moderates of National Front whereas Hedjazi would probably be primarily interested in setting up strong government which would strengthen hand of Shah and exterminate Communists . . . .

Regarding (c) *coup d'état*, to be successful, would have to be carried out and executed entirely by Iranian military in name of Shah without knowledge of Shah since Shah would probably not have stamina to see it through and might at certain stage weaken and denounce leaders, it would probably be necessary for at least commander of army division stationed in Tehran to be fellow conspirator and probably at some point commander of Shah's bodyguard; it is believed that if army could gain complete control of Tehran and conspirators, in name of Shah, could appoint new chief of staff, most of provinces, except possibly Khuzistan, would recognize new government. Qashqai tribes might cause difficulty. (Such information as has come to us cause us believe trouble from Qashqais might be greater than British seem to think.)

Regarding (d) both Middleton and I agreed that neither British nor American Government should undertake to encourage or support *coup d'état* and that our two Embassies should not become involved in any way.

We should also bear in mind that successful *coup d'état* almost certain result in Tudeh gaining control of national movement. Military dictatorship might therefore encounter increasing difficulties in controlling country and in carrying out constructive program.

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[1] Repeated to London.

[2] See footnote 2, *supra*.

[3] Presumably reference is to telegram 480, *supra*.

HENDERSON

No. 193

888.2553/7-3152

Memorandum of Telephone Conversation, by the Secretary of State[1]

TOP SECRET [WASHINGTON,] July 31, 1952.

Participants: Mr. Acheson
President Truman

I called the President at 10:30 this morning on the subject of Iran. I told him that I consider the situation to be very critical there and in an effort to save the situation I wished to take up with the British the possibility of proceeding immediately upon a plan that involved three basic points. I stated to the President that these points were as follows:

1. The US would make immediately available to Iran $10,000,000 in grant assistance.
2. The British would agree to purchase the oil presently stored in Iran at a suitable discount.
3. Mosadeq should agree that an international arbitration commission should be established to consider the question of compensation to the British.

I explained to the President that we had recently, . . . considered with the various Departments the question of providing 26,000,000 in dollar assistance to Iran and recalled that I had mentioned this to him at the time. We had not proceeded upon this . . . . I indicated to the President that I had not had the time to clear with other interested agencies the question of the US now making available $10,000,000 and wished to know his views before I discussed the matter with the British.

The President approved proceeding with such discussions on the basis that the US Government would furnish this amount of assistance.

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[1] Drafted by Byroade.

No. 194

888.10/7-3152: Telegram

The Secretary of State to the Embassy in Iran[1]

TOP SECRET PRIORITY WASHINGTON, July 31, 1952—11:53 a. m.

276. In view critical Iran situation, Dept considered it advisable make fol proposal joint US-UK action. Fol *Aide-Mémoire* handed by Secy to Brit Amb Franks today:[2]

"Amer Govt considers situation Iran has become most critical and it essential immed steps be taken in effort prevent loss Iran to West.

There seems little likelihood that Shah or conservative elements will recapture polit influence from nationalist Govt Mosadeq. Meanwhile, danger communist capture power is increasing.

Unpalatable though it is, there seems no reasonable alternative to supporting present Govt. Such support must be in manner which will not relinquish Brit claims to compensation for nationalization AIOC in Iran. Furthermore, it must be done in such way as to be justifiable to both Brit and Amer public opinion. Also there must be some prospect that Iran will benefit from resumption of oil revenues to end that budgetary finan aid will not be required indefinitely.

We think time element is so short that first step in providing funds to IranGovt must be taken before any final elaborate agreement cld be worked out.

We therefore propose that Brit and Amer Govts jointly make offer along fol lines to Dr. Mosadeq:

1. US will make immed grant $10 million to IranGovt.
2. AIOC or some other agency designated by Brit Govt will purchase from Iran all oil products presently held in storage by NIOC at commercial Persian Gulf prices less an appropriate discount.
3. On basis proposal discussed between Mosadeq and Brit Chargé Tehran July 25,[3] it wld be agreed that arbitral commission consisting three persons be set up immed to consider question compensation. Neither Amer grant $10 million nor start Brit oil purchases wld be held up pending commencement arbitral procedure.
4. Negots looking toward more permanent arrangement for distribution Iran oil be undertaken promptly.

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[1] Repeated to London. Drafted by John H. Stutesman, Jr., GTI, and approved by Byroade.

[2] A memorandum of their conversation is in file 888.2553/7-3152.

[3] See footnote 2, Document 188.

If question shld be raised regarding sale oil in excess that sold to AIOC, Irans shld be told that Govts US and UK have agreed that no obstacles wld be placed in way such sales."[4]

Acheson

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[4] On Aug. 5 the Embassy in London informed the Department that the Foreign Office had told American officials that the British Cabinet was planning to consider the proposals outlined in the *aide-mémoire* of July 31 on Aug. 7. (Telegram 642; 888.10/8-552)

No. 195

Truman Library, Truman papers, PSF-Subject file

Memorandum for the President of Discussion at the 121st Meeting of the National Security Council on August 6, 1952[1]

TOP SECRET

The following notes contain a summary of the discussion at the 121st Meeting of the National Security Council, at which you presided. Mr. Bruce attended in the absence of Secretary Acheson from the city. The Attorney General, who was unable to attend the meeting, nevertheless participated in Council action on Items 5 and 6 by communicating his views through a memorandum.

[Here follows an oral briefing on the situation in the Far East.]

2. The Current Situation in Iran

The President asked Mr. Bruce to open the discussion of the subject.

Mr. Bruce stated that NSC 107/2 [2] still covered the question of U.S. policy with respect to Iran. The Department of State did not feel that the time was yet ripe to revise that report, he added, so no written statement had been prepared for this Council meeting. Certain recent actions taken, he added, which he would describe, had been cleared with the President by Secretary Acheson prior to the Secretary's trip to Honolulu.

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[1] Prepared on Aug. 7, presumably by the Secretariat of the NSC. According to the minutes of the meeting, which consist of a list of participants and a brief list of decisions taken at the meeting, the following members of the Council attended: President Truman, presiding; Acting Secretary of State Bruce; Secretary of Defense Lovett; Director for Mutual Security Harriman; and Chairman of the National Security Resources Board Gorrie. Others present at the meeting included Secretary of the Treasury Snyder; Acting Director of Defense Mobilization Steelman; General Bradley, Chairman of the Joint Chiefs of Staff; General Smith, Director of Central Intelligence; and Executive Secretary Lay and Hugh D. Farley of the NSC Secretariat. (Minutes of the 121st meeting of the NSC, Aug. 6; Truman Library, Truman papers, PSF-Subject file)

[2] Document 32.

Mr. Bruce explained that we still wished to coordinate our actions with the British, even though we apparently had quite a difference of views with them over the basic situation in Iran. The British have less fear than we that the communists would take over Iran if there were a change of government. We now appear to be faced with something that contradicts a main tenet of NSC 107/2 since the Shah demonstrated that he did not have the power to support Qavam. With respect to current talk of the possibility of a *coup d'état,* Mr. Bruce said he felt that was practically impossible, since there was no leadership capable of taking over, especially with the prestige of the army diminished.

The Department of State, Mr. Bruce said, was beginning to face the serious possibility that, if we could not obtain agreement on a line of action with the UK, we should get on with a policy of our own. Last week the Department had sought another means of agreement with the UK through an *aide-mémoire,* based on the support of Mossadegh. One proposal in the *aide-mémoire* was for us to make a grant of $10 million to Iran. Mr. Bruce said that Secretary Lovett had some question as to whether this should be a gift or a loan. Ambassador Henderson, he added, preferred a gift. A second proposal was that the British should buy current oil stocks in Iran. The third point was that we would not interpose objection to the subsequent sale by Iran of its oil. On this one, Mr. Bruce said Secretary Lovett had a question as to arrangements for the disposal of such oil, which presumably would consist of future production.

Secretary Lovett remarked at this point that he had been struck in reading the *aide-mémoire,* after it had been transmitted, with the following peculiar combination of proposals: we would be urging the British to buy the oil stocks, giving Iran $10 million, and then implying that Iran can sell to the Soviets, if they wish. This would be very difficult to explain, Secretary Lovett felt. Mr. Bruce agreed that the wording regarding subsequent sale of Iranian oil should, if possible, preclude sale to the Soviet bloc.

Mr. Bruce then said that the British Cabinet was scheduled to consider this recent U.S. proposal next week. Ambassador Henderson had concurred in the general principles contained in it, and the British Ambassador apparently agreed that Mossadegh was our best chance to hold Iran. Mr. Bruce concluded that if the British accepted these proposals, then we could proceed to negotiate with Iran. If the British refused, however, then we might have to go it alone, although Mr. Bruce said he was not yet ready to make any recommendations in this regard.

The National Security Council:

Discussed the subject in the light of an oral report by the Acting Secretary of State.[3]

[Here follows discussion of United States objectives and courses of action with respect to Japan, East-West trade, NSC 86/1, evacuation of selected key indigenous persons from danger areas, the position of the United States with respect to Turkey, and the status of NSC projects.]

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[3] This final paragraph regarding the current situation in Iran was adopted verbatim as NSC Action No. 659. (S/S-NSC (Miscellaneous) files, lot 66 D 95, "Record of Actions by the National Security Council, 1952")

No. 196

888.10/8–652: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET NIACT TEHRAN, August 6, 1952—11 p. m.

558. 1. We are pleased and relieved at constructive suggestions contained in Dept's *aide-mémoire* to Brit Amb (Deptel 276 July 31) and sincerely hope that Brit Govt will find it possible accept them in understanding spirit and without feeling impelled to make reservations or add conditions which wld tend detract from conciliatory nature of contemplated approach (Deptel 306 Aug 5).[2]

2. From Western point of view suggested approach wld certainly appear to be generous. We are not certain however that Iranians in their present suspicious and resentful frame of mind wld regard approach in same light. Some of Mosadeq's more extreme advisors wld undoubtedly charge that Americans and Brit were trying to trick Iran into submitting question of compensation to internatl arbitration. They would insist that GOI wld be foolish in return for paltry US grant of $10 million and for sale of oil stores to AIOC to agree to procedure which might result in Iran being saddled with debt to AIOC of hundreds of millions of dols. During last ten days extreme Iran nationalists with vociferous Tudeh backing have been carrying on vigorous private and public campaign against submission question compensation to internatl arbitration body. We believe that Mosadeq personally wld be willing to have vexatious question compensation settled by internatl arbitration if such set-

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[1] Repeated to London.

[2] In telegram 306 the Department informed Henderson that it would appreciate any comments he wished to make regarding the Department's proposal for joint American-British action outlined in the *aide-mémoire* of July 31. (888.10/8–552)

tlement wld mean solution of whole oil problem on basis which wld be acceptable to Iranian public opinion. Proposed approach however does not pretend to carry with it solution of whole oil problem. It would leave him and Iranian in dark as to kind of general settlement which UK and AIOC have in mind. Whether Mosadeq wld have courage to agree internatl arbitration in fact of opposition which is sure to develop unless he in position to point out that his agreement means satis solution whole oil problem we are unable to say. In any event Mosadeq wld in our opinion be in a better position to defend such agreement if US cld offer grant of say $30 million instead of $10 million. Former figures shld enable Iran to pay urgent past due bills and to meet most pressing financial needs for next month or so. Receipts from sale of oil cld then be used in connection with reopening of oil industry. We assume that Dept has suggested grant not larger than $10 million partly because of attitude of UK and US public towards Mosadeq Govt. Nevertheless in view of all that is involved we consider it wld be advantageous to Western world if offer of grant wld be large enough to indicate real desire on part US and UK to help Iran thru difficult situation.

3. If US and UK shld agree to joint approach on basis principles outlined in *aide-mémoire* we venture suggest that we be authorized to tell Mosadeq informally at time approach is made that (a) if offer is accepted and if it leads to negotiations between UK and Iran looking towards full settlement, US willing continue on temporary basis assist Iran financially during course such negotiations and (b) if oil dispute is settled so that Iran can again begin to set its economy in order US Govt has intention in case Iran desires it so to do to support extension of substantial aid of economic development character to Iran either directly or through Exim and Int Bank.

4. I have not as yet had opportunity discuss this matter with Middleton but have appointment with him morning Aug 7.

HENDERSON

No. 197

888.2553/8-952

The British Embassy to the Department of State

SECRET WASHINGTON, 9th August 1952.

Following is message from Mr. Eden to Mr. Acheson:

I was glad to receive through Her Majesty's Ambassador your views on the situation in Persia and your proposals for a joint offer to the Persian Government.[1]

2. In considering the situation in Persia and in particular your proposals for a joint offer, my colleagues and I have directed our attention especially to:

(a) The dangers of allowing chaos to spread in Persia which might result in communism and involve a serious threat to the whole strategic position in the Middle East;
(b) The extent to which it is possible to regard the present Persian Government as a barrier against communism;
(c) The effect on our interests in other parts of the world. As you know, we feel that this might prove disastrous to a country like ours which is so dependent on these interests for its existence.

3. I recognise that it is unlikely that Musaddiq could by constitutional means be replaced as Prime Minister in the immediate future, except perhaps by a Tudeh sympathiser, and that it may look as though he were the best defence available at the moment against communism in Persia. I do not, however, consider that his defence is likely to be strong. Her Majesty's Chargé d'Affaires in Tehran has expressed serious doubts, which I think your Ambassador shares, about Musaddiq's value as a barrier against communism. Middleton points out that the Tudeh Party has grown in strength as a result of the policies which Musaddiq has followed since he took office. Now he has been returned to power after public disturbances in which the Tudeh Party cooperated with his followers, and the Tudeh are therefore in a good position to make embarrassing demands upon him which he could probably not refuse. Even his supporter Kashani, according to our information, is worried about his weakness to the Tudeh. Whereas it was at first suggested that it was the Kashani elements which arranged collaboration with the Tudeh, it now appears that this was the work of the Iran Party. As a result of dissensions within the National Front, Musaddiq now finds himself at loggerheads with Kashani and virtually forced into co-operation with the Iran Party. In any case he has never shown any willingness to take action against crypto-communist organisations nor against communist newspapers. All this suggests that Musaddiq should be helped only if and for so long as he shows himself ready to check the drift towards chaos and communism.

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[1] Reference is to Secretary Acheson's conversation with Sir Oliver Franks on July 31, at which time Ambassador Franks was given the American *aide-mémoire* contained in Document 194.

4. But there is another consideration. When your proposals were framed, we were all feeling the impact of Qavam's failure to exploit his position thanks to the lack of support from the Shah and of all that this must have meant to the Army. It seemed incredible that morale should not have fallen to such a point that the army would be eliminated as a significant factor in the political situation. Our latest information, however, suggests that this is not necessarily the case. While criticism of Musaddiq seems to be growing among the National Front leaders, there are signs among the generals of a feeling that Musaddiq cannot be allowed any longer to ruin Persia and that the Army, whose morale is reported to be improving and which remains loyal to the Throne, may have to intervene. If that were to happen, the Parliamentary opposition to Musaddiq would certainly rally to the Army. So long, therefore, as there is any reasonable hope that Persia can be saved by her own people, I believe we should not be hasty in coming to Musaddiq's aid because we think that we shall never have a better government to deal with.

5. The Note which has just been received from Musaddiq alters the situation again,[2] but before dealing with it I address myself to your proposals for a joint approach to him.

6. When Musaddiq made his offer of arbitration on July 25th he doubtless meant no more than arbitration on the question of compensation only, though he himself proposed that the formula should be as general as possible so that the terms of reference should not exclude the discussion of any useful points. However, he did contemplate that there would be a neutral umpire and that both parties would undertake to abide by the decisions reached. For our part, we could agree to arbitration only if the terms of reference were sufficiently wide to permit introduction during arbitration of the question of the validity of the Persian Nationalisation law and its compatability with the Anglo-Iranian Oil Company's concession. We would not, however, insist on either of these points being specifically mentioned in the terms of reference. Our aim would be to request the arbitrators to decide the extent of the wrong the company had suffered and the means of providing redress, including arrangements for the future conduct of the indus-

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[2] On Aug. 7 Mosadeq sent a diplomatic note to the British Embassy in Tehran. In it Mosadeq demanded that the Anglo-Iranian Oil Company immediately pay the Iranian Government all funds belonging to it which the company had been withholding; that all Iranian funds held in British banks be turned over to the Iranian Government; and that the AIOC cease taking measures to prevent the sale of Iranian oil in world markets. If the British took these measures, then the Iranian Government would be willing to enter into discussions with representatives of the AIOC to adjudicate the claims of the AIOC. The verbatim text of this note was transmitted to the Department in despatch 113 from Tehran, Aug. 11. (888.2553/8-1152)

try. I am sending details of my ideas on this point to Her Majesty's Ambassador so that your officials may discuss them with his staff.[3]

7. Once satisfactory arrangements for arbitration on these lines have been agreed with the Persian Government, I would be prepared to ask Anglo-Iranian Oil Company to make arrangements with the Persians to get Persian oil moving, though for a number of technical reasons this could not be arranged quickly and two or three months might elapse before movement could start. I could not however ask the Company to consider moving oil from Persia until there was good reason to hope that some progress could be made towards a settlement, for example, until the conclusion of a satisfactory agreement for arbitration. In any case I could not ask the company to abandon their right to take legal action against other purchasers of Persian oil before a final settlement of the oil dispute had been reached. To do so would involve abandoning much of the Anglo-Iranian Oil Company's case, with serious and direct consequences on our interests elsewhere.

8. I was interested to see that your proposed joint offer to the Persian Government includes arbitration on the question of compensation, and that in this respect your proposals coincided with our thoughts. I and my colleagues have carefully examined the offer as a whole, and have reached the conclusion that, if you were able to consider modifications to your proposals, the offer might be framed in such a way that Her Majesty's Government could join in making it. The modifications which we would suggest are:

(i) United States financial aid would be conditional upon the agreement of the Persian Government to arbitration on acceptable terms to the conclusion with the Anglo-Iranian Oil Company of suitable arrangements for the lifting of stocks of oil;

(ii) Purchases of oil by the Anglo-Iranian Oil Company would not be made until satisfactory terms of reference of the arbitration had been agreed upon;

(iii) The Anglo-Iranian Oil Company would not be asked, before conclusion of a final settlement, to abandon the right to take legal action against other purchasers of Persian oil. We regard these modifications as essential. For our part, in return for some progress towards arbitration, we could offer to relax progressively some of the restrictions which we have had in self defence to place on exports to Persia and on the use of Persian sterling.

9. I must add that though the Anglo-Iranian Oil Company are aware of our views as given in the preceding paragraph, it would be necessary for the matter to be considered by the Board of the Company before any binding agreement, affecting as it would the

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[3] Eden's ideas on terms of reference for arbitration are printed as an attachment, below.

interests of the Company, could be entered into between our two Governments.

10. Since the Cabinet agreed upon the policy which I have outlined, we have received a direct approach from Musaddiq, and have also been in contact at The Hague with new Persian Foreign Minister. Unsatisfactory as the terms of Musaddiq's Note are, it does at least offer an opening for the resumption of direct talks with the Company, and I am therefore now considering whether, while reserving all our rights and continuing to work on proposals for arbitration, we could not turn this opening to advantage. The reply will need very careful drafting but I am now engaged on it and I will give you my thoughts as early as I can next week.

[Attachment]

PERSIA

SECRET

Satisfactory terms of reference for arbitration might be on the following lines:

Arbitration should be on the basis of deciding:--

(a) What sums are due to the Anglo-Iranian Oil Company from the Persian Government in respect of the nationalisation of the Company's undertaking having regard to:

(i) the date and manner of the nationalisation;

(ii) the legal situation existing between the Persian Government and the Company immediately previous to the nationalisation;

(iii) the value of the Company's undertaking, the installations involved, its goodwill and the prospects of future earnings, together with the loss and damage caused to the Company by the Persian action.

(b) The time and method of payment and means of making payment effectual.

(c) The arrangements for the future conduct of the oil industry pending full and final payment to the Company of the compensation and other sums awarded under (a).

This formula would be capable of modification and of being rendered somewhat less precise and comprehensive, but something of the kind seems to represent the least which would enable the Company to raise the issue of the essential validity of the Persian action.

No. 198

788.00/8-1152 Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET PRIORITY TEHRAN, August 11, 1952—1 p. m.

624. In view rapidity with which polit sit changing we sending new evaluation of sit at this moment:

1. Striking feature of recent Iranian political development has been sharpening of dissensions among NF leaders and their allies. Apparently, as various checks on power NF were eliminated by seeming complete victory symbolized by return of Mosadeq, ambitious leaders in nat movement have begun more openly to quarrel among themselves. Schism which at present seems most threatening to Nat movement is that between Mosadeq and Kashani.

2. Remnants of conservative opposition to NF in Majlis have adopted new technique for purpose of exploiting and making most of frictions within NF. This technique has been to take more extreme position re various issues than NF itself. This technique has been successful (a) at times in making extremism and extremists look ridiculous, and (b) in exploiting and widening rifts among leaders Nat movement. Opposition for instance credited with effecting election Kashani speaker Majlis, development which has angered and embarrassed Mosadeq and increased friction among Nat leaders.

3. Schism between Mosadeq and Kashani wld appear to be primarily due to: (a) pressures being exerted on Mosadeq simply to show latter he powerless without Kashani and that he shld defer to Kashani's views on essential matters and (b) that Kashani and Mosadeq, both being inflicted with megalomania, are splitting as Kashani openly strives for power to pol leadership of country. Min Court Ala maintains that Shah and Mosadeq are now coop endeavor frustrate Kashani's aggressive ambitions. It natural Mosadeq and Kashani if rift further deepened, wld try gain support of as many polit grps as possible for themselves. Hence polit importance of Shah, Army and Tudeh might increase. Two most important extremists grps of Nat movement, that under Kashani aegis and that in Iran Party, believed not adverse if expedient to make working alliance with Tudeh. Mosadeq to remain in power might have to choose between alliance with Shah and Army or more close coop with Iran Party and its extremist leaders. If Kashani shld decide to withdraw support from Mosadeq latter might find himself in mi-

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[1] Repeated to London.

nority in streets since Kashani and Tudeh together control majority of street fighters. Kashani reps form of nat extremism with which Tudeh might wish temporarily to link itself in order further its aims of eliminating Shah and completely destroying effectiveness of army.

4. Regardless of possible developments within Nat movement this Emb convinced that polit extremism and xenophobia are factors that must be reckoned with for indefinite future regardless of Iran Govt in power. It hardly likely that any Iran Govt in foreseeable future cld agree to discuss arrangements looking toward settlement oil dispute any more conciliatory to Brit interests than that proposed by Dept. Time passing without conciliatory and affirmatory approach from West will only strengthen hand of extremists to detriment West interests.

Henderson

No. 199

888.10/8–1352 Telegram

The Acting Secretary of State to the Embassy in the United Kingdom[1]

TOP SECRET WASHINGTON, August 13, 1952—11:05 a. m.

1019. Under Sec last night gave Brit Ambas foll msg and memo for Mr. Eden:

"*Msg to Mr. Eden from Mr. Acheson.* I have given the most careful thought to your msg on the Iranian situation drafted Aug 9, and am attaching a memo of analysis and comment on particular parts of it. This analysis points out the areas of agreement and the areas of disagreement between your msg and our msg of July 31.[2] This leads me to the foll conclusions:

(1) I do not believe that for the reasons given in the memo your proposals cld be accepted either by Mossadegh or any government that we can expect as a successor to him.

(2) I think that his communication to you,[3] needlessly provocative as it is, is an invitation to negots which I am glad you do not propose to reject. I understand from your msg that you are now considering your reply and that you will give me your thoughts as soon as you can.

(3) I think these negots ought to be considered from two points of view: (a) as to what can be done toward getting out of him some

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[1] Also sent to Tehran. Drafted by the Secretary and approved by Jernegan.

[2] See Document 194.

[3] See footnote 2, Document 197.

improvement of the existing situation and (b) the position in which HMG and the Iranian Govt wld be in the event that the negots failed. From both of these points of view, it seems to me most important that HMG go as far as it possibly can in any proposal which it puts forward.

(4) If the negots fail, the situation, already serious, will be even more serious and we may both have to be in a position on a crash basis to make some sort of temporary assistance available to prevent the loss of Iran."

"*Memo analyzing the msg from Mr. Eden to Mr. Acheson dated Aug 9, 1952.* Paras 3 and 4 of the memo discuss the position of Mossadegh, his effectiveness as a bulwark against Communism and the possibility of his remaining in power. They conclude that he is a weak reed against Communism, that his continuance in office against possible action by the Army is open to more doubt than we thought after the fall of Qavam and that 'we shld not be hasty in coming to Mossadegh's aid because we think we shall never have a better Govt to deal with.'

(*Comment:* We interpret not being hasty, etc., to mean not that no proposal shld be made to Mossadegh but that whatever proposals are made shld be very cautiously designed to see that we get as much as we give and that he is not put in a position to receive aid and then refuse to perform on his own undertakings. We agree that Mossadegh's position does not seem as sure today as it did after Qavam's fall. We also believe that the entire situation in Iran now appears more confused and unstable than it appeared after Qavam. We further believe that no change which may occur, by coup or otherwise, wld produce a govt which wld be able to accept proposals as stringent as those contained in the Brit memo of Aug 9.)

Para 6 amplified by the additional paper presented by the Brit Amb[4] contains the terms of reference for arbitration. Substantially, there are two principal factors in these terms:

(a) the amt of compensation and

(b) the method of paying the compensation, including arrangements for the the future conduct of the oil industry pending full payment.

These are discussed separately:

(a) *The amount of compensation.*

Under this heading the Brit wld agree to arbitration only if the terms of reference were sufficiently wide to permit arbitration of the question of the validity of the Persian nationalization law, and its compatibility with the Anglo-Iranian Oil Company's concession. The msg itself is not insistent that the question of validity be stated as such, but in the illustrative draft terms this matter is brought in fully to indicate that all of these matters must be considered in order to value goodwill, future earnings, etc.

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[4] Reference is to the suggested terms of reference attached to Document 197.

(*Comment:* It seems that simple terms of reference providing for the determination on the one hand of all Brit claims of whatever nature arising out of the nationalization of the oil industry in Iran and on the other hand all Iranian claims arising out of the operations of the Anglo-Iranian Oil Company wld provide for all legal arguments and all proof of value which either side might wish to adduce. On the other hand, to insist that the arbitral terms specifically recognize certain elements of claim wld be almost certain to induce rejection on the Iranian side. The draft terms of reference seem to make it clear that the reference in the note to the validity question is not inserted with the idea that the arbitrator shld be empowered to set aside the nationalization, but merely to consider the question of validity as it may bear on the prospects reasonably held of future earnings. In view of this, it seems to us unnecessary to insert it and fatal to agreement if it is inserted.)

(b) *The terms of payment, including the future conduct of the oil industry pending final payment.*

(*Comment:* The rationale of this proposal is clearly that the fixing of the amt of compensation due the Company is only one part of giving just compensation. The other and vitally important part is to make the payment. Since it is clear that the payment can only be made out of the operations of the oil industry, just compensation is not given by merely fixing an amount without satisfactory arrangements for payment. Thus the argument runs and it is undoubtedly logical. However, the inescapable fact seems to be that the Iranian Govt wld not and cld not place in the hands of an umpire the right to determine over a long period of years how the oil industry in Iran shld be operated. Mossadegh has never been willing to make the concession in this regard which the Brit deem necessary, and it is impossible to believe that he wld do so now or that any successor to Mossadegh cld take this step. Since, therefore, the determination of how the award shld be paid, including the operation of the oil industry, cannot in our judgment be in the arbitration procedure, it wld be necessary that in addition to that procedure, which wld result in the fixing of an amount for compensation, there be a second negot for the purpose of assuring, within the limits of Iran's right to control the operations within Iran, that the award wld be paid. If it is thought that this presents an uncertain future and prospects of no assured value, the answer is that it is better than the present situation which offers nothing.)

Para 7 says that once satisfactory arrangements for arbitration are worked out, arrangements cld be made with the Persians to move oil. However the Company wld not be asked to abandon their right to take legal action against other purchasers of Persian oil before a final settlement of the oil dispute had been reached.

(*Comment:* It shld be noted that the Dept's proposal provided that all the oil presently in the tanks be bought by the AIOC. Thus no question wld be raised regarding action against any other purchaser of this oil. It is in regard to this oil in the tanks that the AIOC wld appear to have the best legal position as against any other purchaser. It was also the Dept's idea that before any new oil had been extracted from the ground and refined, a beginning at least wld have been made upon satisfactory arrangements with the AIOC for its distribution. If this were not the case, then the question arises: Is the Company's right to proceed against other purchasers a valuable one? In the absence of careful legal analysis, it seems at least doubtful whether the Company cld successfully assert title to oil which is now in the ground in Iran and which the Company wld not have produced. The chief purpose of retaining a right to proceed against purchasers of this oil wld be to decrease the chances of finding such a purchaser. This does not seem to us to be a useful method of solving the present problems provided they can be advanced to a point where arbitration wld be in process and discussions of future purchases by the AIOC wld be under way. Such purchases as might be made by others wld not appear under these circumstances to be so material as to impair the course of the proceedings.)

Points of Similarity in the U.S. and U.K. Proposals

We had proposed that when Mossadegh agreed to arbitrate the amt of compensation (and by that we meant agreed to a suitable document creating the arbitral group, stating the terms of reference and appointing the arbitrators) two things wld happen:

(1) The US wld make available some budgetary assistance and (2) the UK wld proceed as soon as possible through the AIOC to lift the oil in the tanks upon some satisfactory financial basis. So far the Brit msg seems to agree. However, as is indicated above, it seems to go further in the foll respects:

Points of Difference Between the US and UK Proposals

While the US proposal was one for a temporary alleviation of the situation, which it was hoped wld open the way for more far-reaching agreements, the Brit proposals seeks at the outset to set up machinery for a final settlement. It does this by adding to the arbitration terms the authority in the arbitrators to fix the time and the methods of payment, including the operation of the oil industry. This, we believe, will not work. Secondly, it provides that the right to take legal procedure against any other purchasers shall continue until final settlement, which may either mean until the whole award of the arbitrators, including the management of the industry, is accomplished and put into effect, or it may mean until final payment has been made. In either case, we believe that this will produce a fatal stumbling block.

Another possible addition to the Dept's proposals grows out of the possible position of the AIOC contemplated in the Brit memo. Para 9 of the Brit msg appears to consider that the two Govts cld not enter into agreements affecting the interests of the Company until the matter had been considered by the Board of the Company. The relations between the Brit Govt and the AIOC are purely for the determination of the Brit Govt, but the Dept of course cannot agree, in a matter affecting the fate of Iran, that its agreements with the Brit Govt are subj to the consideration of the Board of Directors of the AIOC."

BRUCE

No. 200

888.2553/8-1452: Telegram

The Acting Secretary of State to the Embassy in the United Kingdom[1]

CONFIDENTIAL WASHINGTON, August 14, 1952—5:32 p. m.

1068. Fol *aide-mémoire* today handed to Burrows Brit Counselor:

"Instrs to Middleton re proposed reply to Mosadeq have been carefully studied in Dept.

It is view of Dept that suggestion of informal conversations between Reps of IranGov and of AIOC has merit and we wld be pleased if Dr. Mosadeq accepted this proposal.

Dept considers that alternate proposal, to be followed shld Dr. Mosadeq refuse suggestion for informal conversations, wld be unacceptable to IranGov and wld leave gen atmosphere worse rather than better. Reasons for this belief were set forth in Secy's msg to Eden of Aug 12 and need no elaboration here."

BRUCE

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[1] Also sent to Tehran. Drafted and signed by Richards.

No. 201

888.2553/8–1552

Memorandum by the Assistant Secretary of State for Near Eastern, South Asian, and African Affairs (Byroade) to the Acting Secretary of State[1]

TOP SECRET WASHINGTON, August 15, 1952.

Subject: Latest Mosadeq Proposal for Iranian Oil Settlement

Mr. Bailey of the British Embassy, this morning, showed me a message from the British Chargé d'Affaires in Tehran reporting his conversation with Prime Minister Mosadeq on August 14. Bailey said he could not leave a copy of the message with us, but he allowed us to take notes. The following is the essence of the message.

Dr. Mosadeq was unusually friendly. He said that he intended to move ahead with reforms in Iran but he desperately needed money. His recent note on the oil question had been intended to open the way to a settlement in order that the Iranian Government could obtain funds. If some portions of the note had seemed to be very strong, that was because the Persian people expected Dr. Mosadeq to defend their interests strongly.

Dr. Mosadeq said he had not gone into the question of how much money the Oil Company in fact owed Iran. He might be wrong regarding the sums mentioned in the note, but if that were the case he nevertheless hoped that the British Government would find means of giving him financial assistance.

The Prime Minister put forward the following proposal:

1. The two Governments would ask the International Court of Justice to settle the question of compensation. (If the British Government agreed to this, he would have to consult the two Chambers of Parliament because, despite the full powers recently granted him, he could not act in a matter of such importance merely on his own responsibility). The Court would not, in any case, be permitted to pass judgment on the validity of the 1933 oil concession[2] or of the Iranian nationalization law. Those must be considered as res adjudicata ("choses jugés").

2. Her Majesty's Government would urgently investigate the possibility of making money available to the Iranian Government.

3. The AIOC should immediately get in touch with the Iranian Oil Sales Commission with regard to purchases of oil. Dr. Mosadeq would be willing to sell the bulk of Iranian oil to the AIOC provid-

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[1] Drafted by Jernegan.

[2] The 1933 oil concession was signed on Apr. 29, 1933 and was to last for 60 years. It revised the D'Arcy Agreement in such fashion as to increase substantially the royalties paid by the Anglo-Iranian Oil Company to the Iranian Government. Regarding the D'Arcy Agreement, see footnote 3, Document 216.

ed satisfactory commercial agreements could be reached. The compensation awarded by the ICJ would be paid either by deliveries of oil free of charge or by a reduction in the sale price to the AIOC.

The Prime Minister commented that Iranian public confidence in the ICJ was so great as a result of the Court's decision on the question of competence that he could now safely submit the question of compensation to it.

Middleton commented, in his report to the Foreign Office, that he thought Mosadeq would agree to submission to the ICJ of terms of reference such as the following: "The determination of compensation to be paid, having regard to a) the claims and counter-claims of both parties and b) the juridical position of the parties prior to March 20, 1951".

He added that if the British Government were favorably disposed toward this proposition of Dr. Mosadeq, he hoped it would be possible for the AIOC to transfer to its reserve the amount of fifty million pounds. It would then be able (I believe under a clause in the concession) to advance twenty percent, or ten million pounds, to the Persian Government. "Alternatively, it may be assumed that the Americans would come to the rescue".

It was obvious from the whole tone of the message that Middleton was much encouraged and hoped Mosadeq's proposal would be accepted, although I do not recall that he made a specific recommendation.

No. 202

888.2553/8–1852: Telegram

The Acting Secretary of State to the Embassy in the United Kingdom[1]

SECRET WASHINGTON, August 18, 1952—7:47 p. m.

1159. Eyes only for Holmes, no distribution whatever. Fol exchange msgs between Churchill and Pres transmitted FYI only:

"In Anthony's absence, I am taking charge of FonOff corres.

I am concerned about Alton Jones' visit to Musaddiq after his personal interview with you.[2] If it came about that Amer oil inter-

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[1] Also sent to Tehran eyes only for Henderson.

[2] Alton Jones, President of Cities Service Corporation, was invited by Prime Minister Mosadeq to advise the Iranian Government on the operation of the Iranian oil industry. On Aug. 13 and 14, respectively, Jones had confidential interviews with President Truman and Acting Secretary of State Bruce and informed them of his interest in facilitating the resumption of oil operations in Iran for the overall bene-

Continued

ests were working to take our place in Persian oil fields after we have been treated so ill there, this might well raise serious controversy in this country. We are doing our utmost to bear the heavy load, and do not possess the bi-partisan support of Opposition which we gave late Govt in fon and defence affairs. We are also helping all we can in Korea. No country is running voluntarily risks which we are, shld atomic warfare be started by Sov Russia.

I hope you will do ur best to prevent Amer help for Musaddiq, either Governmental or commercial, from becoming powerful argument in mouths of those who care little for great forward steps towards Anglo-Amer unity in common cause which you and I have worked for so long."

Pres's reply handed Brit Emb this evening fol:

"Secret and personal for PriMin Churchill from Pres Truman.

I have ur msg of Aug 16 and understand ur concern over Jones visit to Iran. However, Jones impressed me favorably and was emphatic about his desire to be helpful in facilitating Brit-Iran oil settlement. He seems to be sincere in his belief that resumption of large-scale oil operations in Iran is impossible without coop of AIOC and said he wld emphasize this to Mosadeq. As we told Sir Oliver Franks, Jones plans talk to AIOC people after seeing Mosadeq.

As we see it, there are two problems: (1) An agreement must be reached with Irans on amt of compensation due AIOC, and (2) means must be found to enable Iran to pay this sum out of oil revenues. I think there is good chance Jones can be helpful on second problem. First of all, he will again explain to Mosadeq facts of life in oil industry and need of dealing with AIOC. Secondly, if latest Iran proposals lead to an agreement with Co for sale and distribution of Iran oil, Jones may be able to help IranGov resume production and refining processes so that there will be oil for AIOC to buy and market.

If Jones can work out something it might be useful, since with polit temper in Iran as it is, I think there is no possibility that Brit management as such wld be allowed to return and take charge of oil fields or refinery. By same token, no other fon interests cld take place in Iran which AIOC formerly held, and I am certain the Amer oil Cos understand this.

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fit of relations between the Western powers and Iran. Jones stated that he intended to make it clear to Mosadeq that it was virtually impossible to resume the marketing of substantial amounts of Iranian oil without the full cooperation of the Anglo-Iranian Oil Company. If his talks with Mosadeq were encouraging, he planned to consult officials of the AIOC to make arrangements whereby the AIOC would market Iranian oil if the Iranian Government, with Cities Service help, could reestablish production and refining operations.

Acting Secretary Bruce emphatically informed Jones that his activities could not be sponsored by the U.S. Government because there was a possibility that negotiations would be resumed by the British and Iranians. Bruce hoped Jones would do nothing to impede the progress of these negotiations. Jones expressed understanding and said he was going only because he thought he could be helpful in effecting an Anglo-Iranian settlement. Documentation regarding the Jones trip is in Secretary's Memoranda of Conversation, lot 65 D 238, and file 888.2553.

I need not tell you that we have not slightest wish profit by ur present difficulties. We will do everything possible to avoid even appearance of this.

On the wider issues, I am hopeful that you will be able to take up Mosadeq's most recent proposals in broad and conciliatory spirit. Our reports make me think there is not chance that this or any other IranGov can come forward with anything better, and danger which wld be involved in missing this opportunity seems to me too great to be risked. It looks to me as if time is running out for us.

In particular, I hope you will be willing to accept Iran nationalization law. I see no possibility of any agreement if you include in Court's terms of reference any question of validity of that law, which seems to have become as sacred in Iran eyes as Koran. This need not of course prevent you, during arbitral proceedings, from maintaining validity of 1933 concession and claiming damages for its unilateral abrogation. Dean Acheson sent a msg to Eden along this line on Aug. 12.[3]

If Iran goes down communist drain, it will be little satisfaction to any of us that legal positions were defended to last. The strategic consequences of loss of Iran to West and possibility therein of gradually losing great bulk of ME with its oil resources to Sovs are too obvious to mention. Such disaster to free world wld undoubtedly also place a strain on gen Anglo-Amer relationships not pleasant to contemplate.

It is my earnest hope that we can avoid these misfortunes and move forward together in common cause. I think you know how much Anglo-Amer unity means to me."

Bruce

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[3] Transmitted in Document 199.

No. 203

888.2553/8-2252 Telegram

The Acting Secretary of State to the Embassy in Iran[1]

TOP SECRET WASHINGTON, August 22, 1952—5:01 p. m.

458. For Chief of Mission only. Fol two msgs dated Aug 20 from PriMin Churchill to Pres rptd for ur info only:

First msg:

"1. Thank you so much for ur deeply considered reply. Why do we not send a joint tel personal and secret to Musaddiq? It is true we cld not sign it with our Christian names because he has not got one. Nevertheless if we cld agree to say 'If you Musaddiq will do

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[1] Repeated to London.

(A), (B) and (C), we two will do (X), (Y) and (Z),' and if this cld be put down shortly it might be a help to our common interests. If you think well of this idea, shall I try my hand at a draft or will you?

2. We are dealing with a man at the very edge of bankruptcy, revolution and death but still I think a man. Our combined approach might convince him. The alternative is the US taking on the burden of being indefinitely blackmailed by Persia to the detriment of her greatest friend. It will be worse for you even than for us if what is called Persia thinks that she can play one off against the other."

Second msg:

"I thought it might save time if I sent this draft to you which expresses our view of the policy we might perhaps put forward together.

Fol are my ideas of a possible joint msg:

If the Persian Govt will agree to

(I) the submission to the Internatl Court of the question of the compensation to be paid in respect of the nationalisation of the enterprise of the Anglo-Iranian Oil Co in Persia and the termination of the 1933 Concession Agreement having regard to all the claims and counter-claims of both parties

(II) appoint suitable reps to negot with the Anglo-Iranian Oil Co arrangements for the flow of oil from Persia to world markets, then

> (a) the UK Govt will agree on behalf of the Anglo-Iranian Oil Co to the submission to arbitration set out in (I)
>
> (b) the UK Govt will relax certain of the restrictions on exports to Persia and on Persia's use of sterling
>
> (c) the US Govt will make their immed grant of $10 million to the Persian Govt
>
> (d) the UK Govt will arrange for the Anglo-Iranian Oil Co to take their part in the negots set out in (II).

When agreement on the submission under (I) and (a) has been completed, (II), (b), (c) and (d) will become operative.

Thus far the msg.

The form of words in (I) is not meant to be a precise formula for the reference to the Court. I do not think there will be any difficulty in our accepting the Nationalisation law as a fact. The terms of reference must not, however, prevent us from maintaining, as you put it, the validity of the 1933 Concession and claiming damages for its unilateral abrogation.

I should hope that further aid from the US wld be conditional on the progress of (II) and (d).

When delivering the msg the UK and US reps shld pt out that the negots under (II) and (b) stand no chance of success unless the anti-Brit and anti-US campaign in Persia has been stopped."

BRUCE

No. 204

888.2553/8-2152 Telegram

The Acting Secretary of State to the Embassy in Iran[1]

TOP SECRET WASHINGTON, August 21, 1952—8:10 p. m.
PRIORITY

452. Eyes only officer in charge—no other distribution. Fol msg from Pres to PriMin Churchill handed Brit Emb this evening at seven.

"I want you to know that I am personally grateful for fine msg you sent me last evening. I consider its contents a great step forward in solution of a problem which seems fraught with grave danger to interests of our two countries.

I shall be happy to give your latest proposal my support, and to assist in every way we can to convince IranGov that it is in their interest to accept this offer.

Our physical separation complicates problem of joint msg. Furthermore I am concerned lest enemies of West in their propaganda seize on such an approach as evidence that our two nations are "ganging up" on Iran. The most logical procedure seems to me to have each of us send a msg to Mosadeq but so drafted as to clearly indicate consultation and agreement between us. I wld much prefer this procedure and hope you can agree. My suggestions for drafting are attached in Annex A.

In agreeing with you as I have above, I wish to point out certain matters which I believe will continue to merit ur personal attention.

> (1) If we are successful in this approach, the type of representation of AIOC for scheduled talks will be of utmost importance. I earnestly ask ur consideration of appointment of a highly qualified and preferably well-known rep of ur Govt to be in fact AIOC rep. I wld be extremely reluctant to join in approach if I felt that future negots wld be conducted on anything but broadest possible point of view in interests of our Govts.
>
> (2) Mosadeq's request for immediate finan assistance from UK Govt seems to have been met only partially. If you can see ur way clear in finding additional and immediate funds, that wld be of great importance. We have in past suggested as an approach to this problem that you make immediate arrange-

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[1] Also sent to London.

ments to lift and make payment against oil now stored in tanks, and Mr. Eden in his msg to Acheson of Aug 9 indicated that advances in respect to oil lifted cld be made after satis terms of reference of arbitration had been agreed upon.

(3) In agreeing to ur proposal, I assume that wording of para (II) in which you spoke of arrangements for flow of oil refers to distribution problem. As you know, I consider that unfortunately it is not any longer a matter for discussion as to whether AIOC wld produce oil or operate Abadan refinery. We wld probably both have to stand ready to offer our assistance to IranGov in its arrangements for efficient future operation of oil industry in Iran, if requested to do so.

(4) I hope in drafting msg you wld send you will be able to rearrange Point I so as to avoid specific mention of "termination of 1933 Concession Agreement". Henderson has informed us in past that direct reference to this matter might place Mosadeq in difficult position with some of more extreme elements of Nationalist Front. Perhaps this cld be avoided by deletion of this phrase and substitution of "having regard to legal position of parties existing at time of nationalization".

(5) Matter of handling publicity on this deserves consideration. With so many unfortunate leaks these days, I think we shld both use every precaution to keep our approach secret until we discover how Mosadeq wld like matter handled. I think perhaps only he can judge whether immediate publicity wld be helpful or harmful.

(6) Of course, I am certain you understand our agreement in this particular matter does not limit freedom of action of either of our Govts in future to meet situations not now known. I believe in these critical times we will both want to maintain our freedom to judge each situation as it occurs, and on what we believe to be merits of case.

I wish again to express my apprec for ur msg which I consider represent statesmanlike approach to an extremely difficult problem."

"Annex A. Text of my msg to Mosadeq

'Mr. Churchill has consulted me on proposals that he is communicating to you in effort to secure a settlement of oil question.[2] My Govt has had an earnest and continuing interest in efforts to bring about resumption of flow of Iran oil to world markets and it is my belief that present proposals offer splendid opportunity for parties to resolve their difficulties. I believe that proposed course of Brit action is one which fairly meets ur problems and on behalf of this govt I am glad to urge you to give it most sympathetic consideration.

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[2] John H. Ferguson, Deputy Director of the Policy Planning Staff, informed Richards on Aug. 22 that, at Secretary of Defense Lovett's suggestion, the phrase "has consulted me on" had been changed to "has advised me concerning" in the first sentence of the draft message to Mosadeq. (PPS files, lot 64 D 563, "Chronological 1952")

Interest of US is solely that of standing ready to assist in this matter if such assistance is desired by parties. I wish to assure you that if agreement is reached on present proposals, the Govt is prepared assist you in ur current finan difficulties, if you so desire, and will for this purpose make an immediate grant of $10 million available to ur Govt.

It is my sincere hope that a basis can now be found which will permit a renewal of oil operations in Iran and afford an opportunity for bringing about improvement of conditions of Iran people through the programs of development for which we all so devoutly hope.'

If above wld be acceptable I shld think you wld wish to place a cross reference in ur msg to ur consultation with me and our agreement. Specifically, I shld think para 2(c) which speaks of US assistance shld be worded to indicate that I had informed you of our willingness to provide such a grant. I hope in drafting ur msg you will consider other points I have made above and wish to assure you that any drafting suggestions on my part for ur msg are due entirely to my conviction of urgent need for arriving speedily at an agreement acceptable to Irans and satisfactory to you.

If points I have made are agreeable to you, it might be possible to put forward proposals in terms of such a formula as fol:

1. Submission to ICJ of question of compensation to be paid in respect of nationalization of enterprise of AIOC in Iran, having regard to legal position of parties existing at time of nationalization and to all claims and counterclaims of both parties.

2. Appointment of suitable reps of both parties to negotiate arrangements for resuming flow of oil from Iran to world markets. As first step, HMG are prepared to seek appropriate arrangements for lifting of all oil products presently held in storage in Iran and for advances in respect of such oil products.

3. Upon agreement to submit claims of both parties to ICJ (a) HMG will relax restrictions on exports to Iran and on Iran's use of sterling, and (b) it is our understanding that USGov will make an immediate grant of $10 million to IranGov."[3]

For Henderson: Dept appreciates and is concerned by ur comments re inadequacy ten million dollar grant. Will wire you separately this problem tomorrow.[4]

BRUCE

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[3] On Aug. 22 Ambassador Henderson informed the Department that he agreed fully with all of the President's suggestions contained in his message to the Prime Minister. (Telegram 804; 888.2553/8-2252)

[4] Ambassador Henderson initially expressed his concern in telegram 784, Aug. 21. (888.2553/8-2152) The Department replied in Document 206.

No. 205

888.2553/8-2252: Telegram

The Acting Secretary of State to the Embassy in Iran[1]

TOP SECRET WASHINGTON, August 22, 1952—7:27 p. m.

463. For Chief of Mission only. Fol msg from Churchill to Amb Franks furnished Dept during discussions Aug 21[2] which gave rise to msg reported Deptel 452 to Tehran, 1249 to London, Aug 21, rptd FYI only:

"Fol amplifies my msg to Pres and may be used in discussion with State Dept.

Arbitration

I hope give final view about terms of reference very shortly. Subj to this, it wld be normal to propose a 'special agreement' ('compromis') which, when it had entered into effect, wld be submitted to Internatl Court by either of parties or both. Draft of such a doc is contained in Annex A. its precise terms can of course be discussed. It seems very desirable that it shld be subj to ratification by Persia.

Financial Aid

HMG cannot make any grant or credit to Persia. In consideration of agreement on arbitration, however, and as earnest of their goodwill they wld relax certain of present restrictions on exports to Persia and on Persia's use of sterling. A list of such concessions is given in Annex B. So far as co are concerned, they have admitted publicly that sum of 1.3 million pounds remains to be paid on account of sums due to Persian Govt in respect of 1951 under 1933 concession agreement. But as co have also made clear publicly, this amount is trivial compared with losses which co have suffered as result of nationalization and HMG cld not advise co to release it unconditionally. Still less cld they advise any immediate payment on account of sums which Persia wld have recd if she had not rejected supplemental oil agreement.

As regards US aid, I trust that we are right in thinking that USGov still only contemplate small initial grant to be made when agreement to arbitrate is reached, and that question of any further aid wld only be considered in context of progress towards satis arrangements for flow of oil.

Negots

We shld prefer that these shld take place outside Persia or at least be preceded by prelim discussions outside Persia. We realise that this may not be possible. It is however essential that any negots shld be conducted on Persian side by reps of greater experience and auth than oil sales commission, since they are bound, even on most favorable estimate, to be extremely difficult.

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[1] Also sent to London.

[2] Reference is to a meeting with President Truman at the White House. The minutes of this meeting are in file 888.2553/8-2152.

Annex 'A'

Fol is prelim draft of 'Special Agreement' (compromis):

Begins. Govt of UK of Great Britain and Northern Ireland and Imperial IranGov have agreed to submit to ICJ question of compensation to be paid in respect of nationalisation of enterprise of AIOC in Persia and termination of 1933 Concession Agreement having regard to all claims and counter-claims of both parties [and to juridical position existing on 19th March 1951].[3]

This Agreement shall be ratified. Instruments of ratification shall be exchanged as soon as possible in Tehran. After exchange of ratifications this Agreement may be notified to ICJ by either of parties. In faith whereof undersigned, being duly authorised by their respective Govts, have signed present Agreement. Done in duplicate at Tehran this . . . day of . . .[4] in English and Persian, both texts being equally authentic. *Ends.*

2. Words in square brackets might be included if reference to 1933 Concession Agreement has, on polit grounds, to be omitted.

Annex 'B'

Fol are relaxations in question:

(a) Supply of refined sugar for 80% payment in dollars;

(b) Supply of goods and provisions of services to NIOC (except Petroleum and Petroleum Products, equipment for direct use in production, refining and export of oil and services connected with Internatl trade in oil such as hire of tankers and insurance of oil plant, tankers and cargoes);

(c) Supply of locomotives;

(d) Supply of some of railway track equipment requisitioned last year;

(e) Limited supplies of other scarce non dollar-worthy goods;

(f) Persia wld be allowed to use her sterling for purchases from other countries, provided that:

> (i) the goods were of type which we were willing to supply to her from UK
>
> (ii) the transactions did not cost sterling area gold or dollars. This means that Persia wld not be allowed to convert her sterling into dollars, and UK Sterling Control Order wld continue to keep her sterling transactions with EPU countries in rough balance, and
>
> (iii) the country supplying goods was one to which sterling transfers from third countries generally are permitted. This

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[3] Brackets in the source text.

[4] Ellipses in the source text.

wld exclude primarily transfers to Italy, Japan and Portuguese Monetary area."

BRUCE

No. 206

888.2553/8-2252: Telegram

The Acting Secretary of State to the Embassy in Iran[1]

TOP SECRET WASHINGTON, August 22, 1952—6:15 p. m.
PRIORITY

460. Eyes only Chief of Mission. FYI only. As stated in Deptel 452[2] Dept is very much aware and concerned ur views re inadequacy $10 million grant to IranGov. In mtg at highest level yesterday[3] decision was made that at least for present not more than $10 million cld be taken from US grant funds and that time involved attempting to secure additional funds wld involve delay. As stated urtel 799 Aug 21[4] "urgency is at present almost overriding factor."

Exam of amt of funds which wld be immed available to IranGov at start negots settle oil dispute [(1) any Brit advance, (2) internal finan resources, (3) US grant $10 million][5] leads us to believe that they wld be sufficient to cover Mosadeq's most urgent expenses for several months. Dept realizes that finan assistance can be considered important factor in influencing satis outcome oil negots but there are disadvantages in placing large grant funds (even were they immed available) at Mosadeq's disposal before he had opportunity show good faith and realistic approach in settling oil dispute. Furthermore Dept believes it unlikely that Irans wld accept $20 or $30 million with much more gratitude than $10 million (urtel 809 Aug 22).[6]

Urtel 804 Aug 22[7] is close to present Dept line thinking. If oil negots are proceeding in satis manner it is possible that additional

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[1] Repeated to London. Drafted by Stutesman and approved by Richards.

[2] Document 204.

[3] See footnote 2, *supra*.

[4] In telegram 799 Henderson expressed hope that the approaches to Mosadeq would be made quickly before a leak occurred which could jeopardize the initiative. (888.2553/8-2152)

[5] Brackets in the source text.

[6] In telegram 809 Henderson sent the Department some unfavorable remarks regarding American aid to Iran which were currently appearing in the Iranian press. (888.00 TA/8-2252)

[7] In telegram 804 Henderson suggested that the Department authorize him, when he delivered the proposed draft message to Mosadeq contained in telegram 452, to tell Mosadeq informally and personally that he was certain that if, while the negoti-

Continued

sources of finan aid might become available. In these circumstances Irans wld presumably have good case in applying for withdrawal $8.75 million from IMF and possibly more. There is also possibility that Eximbank might prove to be source aid such as reactivated loan for internal development Iran which consistent with Mosadeq's schemes for internal reforms. These possibilities have not yet been discussed with reps IMF or Eximbank in view delicacy and high level secrecy current US-UK discussions. Dept is prepared urgently raise these questions with parties concerned shld oil negots in opinion dept reach stage where such action appears warranted.

In addition, while firm commitment can obviously not be made at this time, if oil flow can be insured through adequate management and distribution guaranteed, there is reason to believe that substantial borrowings might be feasible from private sources.

BRUCE

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ations were proceeding in a satisfactory manner, it was apparent that Iran had to have additional financial assistance, the United States would give sympathetic consideration to furnishing such aid. (888.2553/8-2252)

No. 207

888.2553/8-2452: Telegram

The Acting Secretary of State to the Embassy in the United Kingdom[1]

TOP SECRET WASHINGTON, August 24, 1952—3:34 p. m.

1310. For Chief of Mission only. Fol msgs rptd for ur info only.

1. From Prime Minister Churchill to President dated Aug 22, received Aug 23:

"All that I have ventured to suggest to you about Musaddiq was on the basis of a joint approach. I thought that it might do good if we had a gallop together such as I often had with F.D.R. There is little doubt that a brief cogent, joint telegram would be far more effective than a continuance of the futile parlaying which has got us no further in all these months.

"2. Our 'physical separation' did not prevent such methods in the war. However, there was often a fear of our being accused of 'ganging up' and this hampered necessary action, for instance about the Warsaw massacre in Aug 1944. I do not myself see why two good men asking only what is right and just should not gang up against a third who is doing wrong. In fact I thought and think that this is the way things ought to be done.

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[1] Also sent to Tehran.

"3. I see that your Govt on July 31st actually proposed a joint approach with us to Musaddiq. This was a fine idea which might prevent him or anything else that turns up in Persia from thinking they can play one of us off against the other.

"4. From the United States point of view I should have thought it would be a most unprofitable course to pay Persia indefinite sums of money in order that she should not become communist. It does not follow that even far larger sums than the 10 million dollars you have mentioned would avert these dangers. Also the fact that blackmail pays and that those who behave the worse make the largest profits will not have a good effect over all the vast area of your own oil interests in the Persian Gulf and Iraq. I therefore hoped that a strong note could be sounded now by both of us together. It was on this basis that I proposed and could defend further concessions on our part. It is not that I fear criticism here, though that would be troublesome, but it is because I believe that your name and mine at the foot of a joint telegram would be an effective assertion of right over wrong.

"Please see what you can do.

"5. All my personal regards and many thanks for your consideration and courtesy."

2. Message from Minister of State to Brit Amb dated Aug 23, received Dept Aug 23:

"It may be useful to you to have my views on the six points which the President raised in his last msg.

"(1) We agree that the representation of the AIOC will be of great importance. We do not, however, think it would be wise to send a Govt rep. This might look like political pressure from us, or again it might encourage the Persians to give the negotiations a political aspect. We are, however, considering most carefully the possibility of the Company appointing a negotiator from outside both the Govt and the Company.

"(2) HMG would find it quite impossible to provide funds from the Exchequer. We have had to refuse many other countries who have asked us for aid, and we could not make an exception for Persia. We do, however, contemplate that as and when it proves practicable to lift the oil in the tanks, the Company would make some appropriate payment. But before movement of the oil could actually start, the quantity, quality and price would have to be assured, and the physical conditions at Abadan relating to the loading would have to be verified. The Company would be ready to discuss these matters with the Persians immediately agreement had been reached to go to arbitration, and would, for their part try to settle them as quickly as possible. On a rough estimate, certain products might be lifted after one month from the beginning of these discussions and Persia might receive, say 5 million pounds by the end of this year.

"(3) The expression 'arrangements for the flow of oil' refers to distribution and not to the AIOC producing oil or operating the refinery, but of course, as chief customer, the AIOC would remain deeply interested in both these questions.

"(4) We like the draft suggested for the terms of reference, subject to one small alteration. I think they should read: 'The question of the compensation to be paid in respect of the nationalisation of the enterprise of the AIOC in Iran, having regard to the legal position of the parties existing "immediately prior to" nationalisation and to all claims and counter claims of both parties.'

"I have little doubt that all of us here would agree to this.

"(5) We agree entirely.

"(6) We entirely understand the U.S. Government's view and agree that participation in a joint message shall not limit the freedom of action of either Government in the future."

3. Msg from President to Churchill delivered Brit Amb Aug 24:

"Like you I want very much to see our two Governments reach full agreement on the Iranian problem and see us put, at the earliest practicable date, an offer before Mosadeq in an effort to settle the present dispute.

"In view of your strong feelings on the matter, and the fact that we are in agreement that this approach limits neither you nor me nor our governments to particular courses of action in the future, I agree to join with you in a common message to the Prime Minister of Iran.

"I have restudied our messages to each other and your Government's latest views on my six points, which Sir Oliver Franks has given us. While I am disappointed that action by your Government cannot be more immediate on the question of financial assistance to the Iranian Government, I am prepared to proceed in the hope that the course of action upon which we are in concert may succeed. Since days are slipping away which we can ill afford to lose, I suggest a draft which I would be willing to sign.

"I propose a very short cover message jointly from you and me which would have attached to it the substantive points of the proposal. For the covering message I suggest the following:

> " 'We have reviewed the messages from our two embassies in Iran regarding recent talks with you, as well as your communication of Aug 8 [*7*] 1952 to HMG.[2] It seems clear to us that to bring about a satisfactory solution to the oil problem will require prompt action by all three of our Governments. We are attaching proposals for action which our two Governments are prepared to take and which we sincerely hope will meet with your approval and result in a satisfactory solution. We are motivated by sincere and traditional feeling of friendship for the Iranian nation and people and it is our earnest desire to make possible an early and equitable solution of the present dispute.'

"In view of the comments of your Government, it seems to me that the following could well be used for the text of the attached annex.

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[2] See footnote 2, Document 197.

> " '(1) There shall be submitted to the International Court of Justice the question of compensation to be paid in respect of the nationalization of the enterprise of the Anglo-Iranian Oil Company in Iran, having regard to the legal position of the parties existing immediately prior to nationalization and to all claims and counter-claims of both parties.
>
> " '(2) Suitable representatives shall be appointed to represent the Iranian Government and the Anglo-Iranian Oil Company in negotiations for making arrangements for the distribution of Iranian Oil to world markets.
>
> " '(3) If the Iranian Government agrees to the proposals in the foregoing two paragraphs, it is understood that (a) representatives of the AIOC will seek arrangements for the movement of oil already stored in Iran, and as agreements are reached upon price, and as physical conditions of loading permit, appropriate payment will be made for such quantities of oil as can be moved; (b) HMG will relax restrictions on exports to Iran and on Iran's use of sterling; and (c) the United States Government will make an immediate grant of $10,000,000 to the Iranian Government to assist in their budgetary problem.'

"I believe you and I are substantially in accord on the offer that should be transmitted to Mosadeq and I am extremely eager to have it made without further delay. If you have other ideas as to drafting, I suggest you notify me immediately as to exact wording of the changes you would desire so that we may promptly produce an agreed text.

"With warm regards."

Bruce

No. 208

888.2553/8–2552 Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET NIACT TEHRAN, August 25, 1952—2 p. m.

843. Eyes only Secy and Byroade. No other distribution.

1. I saw Mosadeq today noon at his request. His health was much improved although he still looked unusually frail.

2. He told me he had sent for me because situation continued deteriorating so rapidly that unless foreign financial assistance should become immediately available, he must take radical measures. Among these measures would be dropping from payroll tens of thousands civilian employees; sharp reduction of armed forces, et cetera. These measures would, of course, create intense dissatis-

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[1] Repeated to London eyes only for the Chief of Mission.

faction. New malcontents added to opposition already existing would make position of Iran Government difficult. In such situation his government could afford to take no risks. He had heard that in certain influential British circles, it was being said that there was plenty of time to deal with Iran problems; that Iran could go on for months without financial aid of any kind; and that anyone who insisted that Iran-British differences must be settled quickly was simply not acquainted with Iran and its problems. He was convinced that Britishers who advocated leisurely approach really hoped, and were working, for some kind of *coup d'état*, including tribal uprisings and Tudeh outbreaks which might throw country into confusion, which might bring downfall present government and which might even result in eventual partition of Iran. He therefore intended if he did not receive by August 27 reply from UK which would change atmosphere and promise bring economic relief to country, to dispatch note to British Government severing diplomatic relations. He would follow up this action by going personally to US in autumn for purpose bringing to attention of Security Council or General Assembly or to both.

3. I told Mosadeq now was no time for him or his govt to engage in talk re severance of diplomatic relations with UK. Act this kind wld harm Iran more than it wld any other country. I cld not believe that he had considered all consequences which might flow from such action. We were at present in small boat drifting in very rough seas. Any person or govt who rocked that boat might be responsible for catastrophe of wide dimensions. I myself thought I cld see rift in clouds which might promise better weather ahead. If there was ever time when patience was required that time was now. If he had any confidence whatsoever in my desire to be of assistance to Iran he wld take my advice and refrain from precipitous action just now. PriMin asked if he was to understand from what I had said that there might be reply from Brit in few days which wld result in relief of situation of Iran. I said I really hoped that there wld be reply which cld bring about complete change in present atmosphere. He said, "Will Brit give us money? Money is what we need". I said I cld not undertake speak for Brit. I did not know what wld be their reply but I hoped that it wld result in changing Iran situation and that following it Iran wld be in position receive sufficient finan assistance to enable it to meet its present immediate financial crisis. Prime Minister should understand I was making no promises and I was not in position to make any promises. I was merely stating my hope, for which I thought there was some foundation, that if he would only exercise patience brighter days might be ahead.

4. Prime Minister said in view of what I had told him he wld proceed with drafting of note but would not deliver it until Aug 30. Iran situation could not remain as it was beyond that date. He would show me note before sending it if I desired. I said I had no particular wish see note but would like his word that he would not send any message this kind until after he had spoken with me again. This he agreed to do.

5. I asked Prime Minister if he would have objection if I should inform US Government of our conversation. He replied in negative. He said he would like for US Government to know what he was planning. I said that it might be extremely unfortunate if British Government should obtain idea that by his statements to me he was indirectly sending it ultimatum. British Govt did not relish ultimata and if it should believe that he was trying to threaten it, effect on British attitude re Iran which at present in my opinion was conciliatory might undergo change. Prime Minister said he did not intend to issue ultimatum either directly or indirectly to British Govt. He was telling me about his plans and his intentions merely because he had understood from press that US and Brit Govt had been having conversations re Iran and he did not wish to take such decisive measures as severance of relations without, as matter courtesy, informing US Government in advance.

6. From my experience with Mosadeq I am inclined to believe he really means to do what he told me he would do. Developments between now and August 30 might cause him not to carry out his intentions even if no British reply is recd by Aug 30. Regardless of what Mosadeq may have said to me I earnestly urge that reply be delivered to Govt of Iran if possible within next two or three days. Anti-west pressures are at present increasing steadily.[2]

7. Above telegram being discussed this afternoon with Middleton. I hope, however, UK Government will at no time indicate that it has knowledge of this conversation.

HENDERSON

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[2] On Aug. 25 Ambassador Henderson reported that in light of his conversation earlier that day with Mosadeq, Mosadeq would be disappointed when he learned that he would get no more than $10 million. Therefore, Henderson urged again that he be given authority to tell Mosadeq that if an agreement was entered into and negotiations were proceeding satisfactorily, the United States would do all it could to provide economic assistance if the Iranian financial situation became critical. (Telegram 850; 888.2553/8–2552)

No. 209

888.2553/8-2552: Telegram

The Acting Secretary of State to the Embassy in Iran[1]

TOP SECRET WASHINGTON, August 25, 1952—8:18 p. m.

479. For Chief of Mission only. Fol msgs rptd FYI only: From PriMin to Pres Aug 25:

"1. I am delighted we are in such close agreement. I will gladly sign Truman-Churchill cover msg.

2. Barring one drafting point in annexe, which we are mentioning to State Dept,[2] we hope it and msg can be delivered to Musaddiq tomorrow at latest. It wld surely be best for our two reps in Tehran to take it personally together.

3. There are two points which do not alter the text of msg but which shld be agreed between US and Brit Govts and kept for record, namely:

> (a) It is vital to us that, as mentioned in ur No. 1 of annexe, ICJ should be tribunal on compensation.
>
> (b) It wld be against interests both US and Great Britain if Persians got better terms for their oil than other oil-producing countries who have kept their agreements."

Personal msg from Pres to PriMin:

"Am gratified that we are agreed on contents of joint msg to Dr. Mosadeq. I accept change you suggest in para 2 of ur msg of 25th.

Am telegraphing Amb Henderson tonight[3] to be prepared go ahead in concert with Middleton just as soon as Middleton receives ur instrs.

I agree to point you make in para 3(a).

With respect to para 3(b), I of course agree that it is in interests of both of us that basis negotiated for future flow of Persian oil not be such as to dislocate arrangements elsewhere in ME. There are of course so many complex considerations of volume, quality, location, relation to compensation, and like, that variable factors make it difficult to judge comparability of any two arrangements. Naturally, we shld want to look at concrete proposals before we cld judge their effect and reasonableness.

I want to thank you for ur understanding in handling this difficult problem.

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[1] Repeated to London.

[2] British Ambassador Sir Oliver Franks also received instructions on Aug. 25 to request a change of phraseology in paragraph 2 of the draft annex which President Truman wished to attach to the joint message which he proposed that he and Prime Minister Churchill send to Mosadeq. (See Document 207.) The British wished to change the phrase "for the distribution of Persian [Iranian] oil to world markets" to read "flow of oil from Persia to world markets". (888.2553/8-2552)

[3] See telegram 481, *infra*.

I have high hopes that solution can be reached."

BRUCE

No. 210

888.2553/8-2552: Telegram

The Acting Secretary of State to the Embassy in Iran[1]

TOP SECRET NIACT WASHINGTON, August 25, 1952—10:54 p. m.

481. For Chief of Mission only.

1. Pres has agreed with PriMin Churchill on joint approach to Mosadeq along lines Deptel to Tehran 475 (to London 1310).[2]

2. Accordingly you are instructed to concert with Middleton to deliver together fol texts jointly from Pres and PriMin Churchill as soon as practicable after Middleton receives instrs to proceed. Cover msg:

"We have reviewed the msgs from our two Embs in Iran regarding recent talks with you, as well as ur communication of Aug 8 [7], 1952 to the Brit Govt.[3] It seems clear to us that to bring about a satisfactory solution to the oil problem will require prompt action by all three of our Govts. We are attaching proposals for action which our two Govts are prepared to take and which we sincerely hope will meet with ur approval and result in a satisfactory solution. We are motivated by sincere and traditional feeling of friendship for the Iranian nation and people and it is our earnest desire to make possible an early and equitable solution of the present dispute." Proposals to be attached to foregoing msg:

"(I) There shall be submitted to the ICJ the question of compensation to be paid in respect of the nationalization of the enterprise of the AIOC in Iran, having regard to the legal position of the parties existing immediately prior to nationalization and to all claims and counterclaims of both parties.

(II) Suitable reps shall be appointed to represent the IranGov and the AIOC in negots for making arrangements for the flow of oil from Iran to world markets.

(III) If the IranGov agrees to the proposals in the foregoing two paras, it is understood that (a) reps of the AIOC will seek arrangements for the movement of oil already stored in Iran, and as agreements are reached upon price, and as physical conditions of loading permit, appropriate payment will be made for such quantities of oil as can be moved; (b) HMG will relax restrictions on exports to Iran and on Iran's use of sterling; and (c) the USGov will make an immediate grant of $10 million to the IranGov to assist in their budgetary problem."

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[1] Repeated to London. Drafted and signed by Richards; cleared with Acting Secretary of State Bruce, Matthews, and John H. Ferguson.

[2] Document 207.

[3] See footnote 2, Document 197.

3. Shld Mosadeq upon receiving foregoing indicate that $10,000,000 grant inadequate, you may, personally and without making any commitment on part of US Govt, give him line of thought contained in pertinent portions Embtel 804, Aug 22.[4] (FYI Any additional aid would probably have to be loan rather than grant. See Deptel 460 Aug 22.)

4. In commenting on (3) (b) of annex to msg to Mosadeq, BritEmb made pt that by "relax" "abolish" was not meant; and that the relaxations in question were those set forth in Annex B msg from Churchill to Amb Franks quoted in Deptel 463, Aug 22.

5. BritEmb has agreed question of publicity shld for present be handled in accordance numbered para 5 Pres' msg to Churchill quoted in Deptel 452, Aug 21.

6. US and Brit Govts are confident Mosadeq will agree that it would be difficult to conduct successful negotiations in an atmosphere charged with anti-Brit and anti-US propaganda. They therefore hope that Mosadeq will exert best efforts to suppress anti-foreign statements and demonstrations.

7. Brit Govt is instructing Middleton on oral comments he is to make re (a) special arbitration agreement, (b) Brit financial aid, (c) advantages of conducting negotiations outside Iran, and (d) qualifications of Iran reps.[5]

BRUCE

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[4] See footnote 7, Document 206.

[5] On Aug. 27 Ambassador Henderson reported that he and Middleton had an appointment to see Mosadeq that morning. The Ambassador also enclosed the following minor drafting changes in the documents to be handed Mosadeq in order that the American and British versions were identical:

"(A) 'Communication of August 7' for 'communication of Aug 8' in paragraph 1; (B) 'sincere and traditional feelings of friendship' for 'sincere and traditional feeling of friendship' in paragraph 1; (C) 'if the Iran Govt agree' for 'if the Iran Govt agrees' in section three of annex; (D) 'immediate grant of 10,000,000 dollars' for 'immediate grant of dollars 10,000,000' in subsection C of section three of annex." (Telegram 872; 888.2553/8–2752)

No. 211

888.2553/8-2752 Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET NIACT TEHRAN, August 27, 1952—7 p.m.

892. Eyes only Bruce and Byroade. No other distribution whatsoever. Following tel drafted jointly by Henderson and Middleton:

1. PriMin recd us this morning at 10. Our conversation lasted until 1:30. We found him in better health than he had been in for some time. In fact, he seemed to withstand strain of conversation somewhat better than we.

2. We deeply regret to report that his reception of joint msg was not only negative but to extent hostile. He made it clear during course our conversation that if he shld receive this msg he wld be compelled to make it public at once and its publication wld greatly prejudice relations between Iran and US and UK. We, therefore, suggested that we wld postpone handing msg to him pending report to our govts of his views and receipt of fresh instructions. Mosadeq stated that number persons were already aware of fact that we were calling for probable purpose of delivering msgs from our respective govts. He said that therefore he wld be compelled to make public statement that he had disapproved of contents these msgs and that we had thereupon withdrawn them. We told Mosadeq that in that case we wld prefer to leave msg with him. After considerable discussion it was finally agreed that we wld postpone delivering msg; that he wld inform his advisers who already knew that we were coming and press that we "discussed matters of common interest to three govts"; and that we, in response to press queries, wld make similar replies. Middleton, however, said that he wld add to this statement one to effect, that during course of conversation he had "touched upon" Iranian note of Aug. 7.[2]

3. In opening our substantive conversation Henderson told PriMin that Middleton and he had come in response to inst which we had recd from our respective govts to deliver joint msg from Pres of US and PriMin of UK. Henderson said that he wld make no comment regarding substance this msg until after PriMin had had opportunity to read it. He hoped that in reading msg PriMin wld realize it had been prepared after much thought and discussion highest officials of Brit and Amer Govts and had been dispatched in spirit of sincere friendliness to Iran. It was his belief that

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[1] Transmitted in three sections; repeated to London eyes only for the Chief of Mission.

[2] See footnote 2, Document 197.

manner in which PriMin recd msg might have profound effect upon world peace and future of Iran. He urged that PriMin wld examine it in spirit in which it was written. Middleton associated himself with statements made by Henderson and begged PriMin to give msg his most earnest and sympathetic consideration.

4. PriMin read msg several times; then laid it on bed. He said that he wld submit it immed to his Cabinet, to Majlis, and to Senate, and that he wld then give us reply. Henderson asked if he had any question; perhaps we might be able to give him background which wld be helpful in discussing proposals with his Cabinet and legislature. Mosadeq asked why US was offering Iran $10 million. Were there any strings attached to this offer? Was offer unconditional? Henderson replied that judging from text of proposal there was condition, namely, acceptance of first two paras. Mosadeq asked if in Henderson's opinion US wld be disappointed if proposal were rejected. Henderson said that proposal had been made after much study and consultation. Amer Govt thought proposal fair; it offered sol of oil prob; its acceptance wld also assist Iran in present fin crisis. US wld therefore be deeply disappointed if proposal were rejected. PriMin made sarcastic remark to gen effect that it was too bad that US had joined in this proposal, that it cld have saved itself making offer of $10 million and considerable disappointment.

5. PriMin referred to first para of proposal. He entered into long diatribe, general tenor of which was that this para represented nefarious snare for purposes of reimposing upon Iran 1933 agmt and bringing into question nationalization laws.

Middleton said that his was by no means right interpretation. First para of proposals spoke of "compensation in respect of nationalization"; this was in effect recognition of fact of nationalization. Phrase regarding legal position of parties immed prior to nationalization was intended to allow both sides to put forward freely all claims and counterclaims which they might regard as justifiable. Court wld be in a much better position to reject frivolous claims if it cld give consideration to legal factors. Proposals specifically referred to legal position prior to nationalization; this in itself implied that nationalization was accomplished fact. Middleton thought that this was fair formula and emphasized that he was personally convinced that no snare was intended and that language used was to be interpreted in perfectly straightforward manner.

6. PriMin said he cld not agree with Middleton's interpretation. If he accepted this para of proposal he wld be accepting validity of 1933 agreement and wld be contributing to creation of doubts re legality of nationalization law. He wld not be caught in trap of this kind. Henderson asked who PriMin thought was trying to lay trap

for him. Was it Pres of US or was it PriMin of UK? Mosadeq replied that it was AIOC. Henderson said that he was sufficiently well acquainted with background of proposals to be able to state categorically that co had nothing to do with drafting of para. PriMin replied sarcastically that he was glad to receive this info but that in any event he cld never agree to para this kind. Portion of para beginning with "having regard" must be deleted. We asked PriMin if para wld be agreeable to him if last portion to which he had taken exception shld be dropped. After studying first part of para he said that he cld not agree to any proposal which wld give co right to make any kind of claim which it might desire. We asked him what he thought wld be acceptable wording of this para. He did some scribbling on slip of paper. Translation of what he wrote is as follows: "Compensation caused former co on acct of oil installations as result of nationalization of oil industry shall be determined and paid. Claims of Iranian Govt on acct of customs duties and amts that former co must pay according to its balance sheet shall also be determined and paid." What he wrote did not make complete sense. In an effort to find out what he meant we asked whether we were to understand that his formula was to be considered as his suggested terms of reference for arbitration by Internatl Court. He said that we must first agree to principles contained in his formula; only after such agmt wld he be ready to discuss matter of arbitration.

7. We discussed Mosadeq's formula at some length. It gradually emerged that he wld never agree that any claims of co wld go to arbitration unless he had had opportunity to review them in advance and had found them suitable for arbitration. His position was that no claims of co wld be suitable for arbitration except those arising from damages due to loss by co of its physical installations in Iran. On other hand, he insisted that Iran shld be able to counter claim for losses incurred from importation by co over period of years of goods upon which it had not paid customs duty and also from failure of co to pay what its balance sheet showed to be due Iran.

8. Middleton asked PriMin what sums he believed to be due to Iran. PriMin replied he wished to claim only what stood in balance sheet. Middleton inquired whether he meant lbs 50 million placed to special reserve in respect of Gass–Golshayan supplemental agmt[3] which had never been ratified by Majlis. Mosadeq answered

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[3] The Gass–Golshayan Agreement of July 18, 1949, formally known as the Supplemental Oil Agreement, represented an attempt on the part of the Anglo-Iranian Oil Company and the Iranian Government to revise the terms of the basic Oil Agreement of 1933. The Majlis never ratified it. For documentation regarding American interest in these negotiations, see *Foreign Relations*, 1949, vol. vi, pp. 91 ff.

evasively that he asked only for what was legally due to Iran. In course of further discussion PriMin made surprising statement that altho never ratified by Majlis Gass–Golshayan agmt had superseded "facto" 1933 agmt and that there cld therefore be no question of legitimacy of Iranian claim for 50 million pounds. Middleton said that his govt fully recognized need of Iranian Govt for financial assistance and that it might well be possible to make advances under para 3(A) of proposals to meet this need. PriMin again said emphatically that Iran wished to receive only its just dues. In reply to question by Middleton he said that if co or Brit Govt wished to make free gift of lbs 50 million he wld accept it as payment for what co had wrongfully taken from Iran in past. At this point, PriMin made long and emotional harangue on desperate internal situation of his country. There was no money in Treasury, security forces cld not be paid, and there is no assurance that next time civil disorders occurred, security forces cld be depended upon. He regretted that Amer and Brit Govts were unwilling to recognize gravity of situation. Brit Govt appeared to believe that danger of Communism was not imminent. If UK did not pay Iran what was justly due, it wld be responsible in eyes of God and of world for any disaster which might befall his country. If Brit Govt wld respond with generous gesture it wld earn gratitude of Iranian people. He did not want $10 million gift or any other aid from US.

9. Henderson asked if PriMin seriously wished him to report to his govt that he did not desire any econ or other aid from US. PriMin replied in affirmative. He said Iran was not going around with beggar bowl in hand. Henderson said US did not consider that extension of aid to Iran was matter of charity. PriMin retorted that US offer of insignificant sum of $10 million in present sit smacked of charity. Henderson endeavored explain why US was offering no larger sum. He said that it was extremely difficult with Congress out of session for US on short notice to find any larger amt among appropriations not already committed. Mosadeq said $10 million would not take care of Iran's deficit for more than two months. We both pointed out that our two govts had hoped that within two mos revenues from oil would again be flowing into Iranian treasury. Henderson said he was personally convinced that if contemplated negots proceeded satisfactorily US might be able within two mos period to find ways of giving additional assistance to Iran in case latter should again face finan crisis. Mosadeq repeated that Iran wanted no gifts or finan assistance to which it was not entitled. He insisted that what he wanted was the 50 million lbs which stood in balance sheet of AIOC. He did not care whether this amt came to Iran in form of gift or as payment of debt due.

10. Middleton reverted to argument that formula given in first para of proposal was only designed to allow both sides freely to present their claims and counter claims and that no trap or deceit was intended. In subsequent discussion PriMin again referred to proposals as "nefarious document" and said that we should see that when document was published Iran public would rise as one to reject it. We then inquired whether it was intention to publish immed; this was private msg from two heads of govts and was meant to provide basis for discussion in friendly spirit. Mosadeq said that he could not regard such msg as private matter and that it was his duty to nation to make it public at once. He wld not argue any further; we would judge for ourselves from public reaction total unacceptability of proposals.

11. Long discussion followed regarding publication of msg, outcome of which was that we agreed to postpone delivery until we had received further inst. We felt compelled to agree to this since Mosadeq was adamant on subj of pub and at same time made it very clear that public reaction to msg would have most harmful effects on relations between Iran and UK and US. We were convinced that he was not bluffing and intended to publish it in such manner as to give it sinister aspect. It was clear to us that in such circumstances pub might mean final break and we therefore took decision already mentioned. Mosadeq finally agreed that he would regard note as not having been received and would mention it to no one not even his closest advisers. For our part we said we should regard delivery of msg as having been postponed pending report of this conversation to our respective govts and receipt of fresh inst. We left no copy of msg with Mosadeq.

12. We told Mosadeq that we thought that something constructive should come from our conversation and therefore we would like to have his suggestions as to what might be done next. He replied that what he wanted was answer to his note to UK of Aug 7.[4] He could not wait any longer for this answer. He therefore proposed tomorrow or Aug 30 to send new note to Brit Govt. Implication was that he intended in next day or two to sever relations with UK. He maintained that finan sit was so critical that he had no other choice than to take this action. He did not attempt to justify logic of this step. Henderson told PriMin that msg which we had been discussing had been intended as reply to note of Aug 7; that he should give UK at least time to consider what kind of reply to make now that delivery of contemplated msg had been postponed; that in this grave situation one should not act precipitously. Middleton also urged PriMin to regard proposed msg as having

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[4] See footnote 2, Document 197.

been intended as conciliatory and drafted in recognition of gravity of sit of Iran. PriMin thereupon interjected that his note of Aug 7 was also intended to be conciliatory. He had written it primarily in order to get money. He still needed money and would give UK one week in which to reply to note of Aug 7 or to let him have 50 million lbs. He added that if he did not get money he would write another note and that next October he would go to UN to tell whole story.

13. Just prior to our departure Mosadeq as usual became more cordial. He made some remarks of personally friendly nature. He said that he was sure that we were giving our govts correct picture of sit Iran but that unfortunately our govts did not seem to believe what we told them. We replied that we thought that our govts had[5] factors to consider other than particular sit in Iran; they could not ignore world problems and their own public opinion, etc. As we departed Mosadeq said he was looking forward to something from us before next Wed.[6]

14. Comments later.[7]

HENDERSON

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[5] The following phrase was omitted from the telegram when it was deciphered: "confidence in us otherwise they would not keep us in Iran but that our govts had".

[6] In a cable to President Truman on Aug. 28, Prime Minister Churchill said that he and Foreign Secretary Eden believed that Henderson and Middleton should have presented the joint message to Mosadeq and withdrawn. Although the two representatives had not done this, Churchill urged that when the two saw Mosadeq again, they should then hand him the joint message, and both governments should publish its text. (888.2553/8-2852)

Ambassador Gifford reported on Aug. 28 in telegram 1155 that Foreign Secretary Eden urged the same course of action. Gifford expressed agreement with this proposal. (888.2553/8-2852)

[7] See footnote 2, *infra*.

No. 212

888.2553/8-2852

President Truman to Prime Minister Churchill

PERSONAL AND SECRET [WASHINGTON,] August 28, 1952.

Thank you for your message of this morning.[1] After reading the account from our representatives of the fantastic conversation which they had with Mosadeq, I personally feel that they acted wisely in temporarily withdrawing our message until they could seek our further advice. Furthermore, I consider their drafting changes[2] well-advised, although I would suggest that on the first point the following wording would be preferable:

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[1] See footnote 6, *supra*.

> There shall be submitted to the International Court of Justice the question of compensation to be paid in respect of the nationalization of the enterprise of the Anglo-Iranian Oil Company in Iran. The validity of the nationalization law shall not be brought into question by either party. The Court in deciding the question of compensation shall take into consideration claims and counter-claims of both parties. If it should appear that the two parties in preparing their respective claims and counter-claims have different views with regard to the legal situation prevailing in Iran prior to nationalization, the Court shall be at liberty to decide for itself what that situation was.

I understand that you would prefer not to adopt the suggested changes.[3] If you insist, I shall stick to our original text and agree that our representatives in Tehran be instructed to present our proposal formally to Dr. Mosadeq.

Our proposal is a fair one and its publication will serve to clarify the complicated issues in the oil dispute. I would strongly urge you, however, to give sympathetic consideration to the proposed changes, which I am convinced would make our public position even better.

Whatever version is adopted, I believe that the message should be made public immediately after delivery in London, Washington, and Tehran. The State Department will concert with your Foreign Office on the time of delivery and the release of the text and will suggest a line which we intend to take in explaining the message to the press.[4]

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[2] In telegram 901 from Tehran, Aug. 28, Henderson and Middleton jointly advised their governments to agree to their recommendations to make the following textual changes in the joint message if they were to hand it to Mosadeq:

"Paragraph 1 of proposals be changed to read: 'There shall be submitted to the International Court of Justice the question of compensation to be paid in respect of the nationalization of the enterprise of the Anglo-Iranian Oil Co in Iran. The Court in deciding the question of compensation shall take into consideration claims and counter-claims of both parties. If it should appear that the two parties in preparing their respective claims and counter-claims have different views with regard to legal situation prevailing in Iran prior to nationalization, the Court shall be at liberty to decide for itself what that situation was. The validity of the nationalization law shall not however, be brought into question by either party'.

"Paragraph 3(C) be altered to read as follows:

" 'If the Iranian Govt should find itself in urgent need of funds during the period between the acceptance of the proposals and the resumption of revenues derived from the sale of oil, the US Govt will be prepared to extend to the Iranian Govt, if the latter should so desire, financial assistance of a temporary character' ". (888.2553/8–2852)

[3] According to a memorandum drafted by Acting Secretary of State Bruce of his conversation with President Truman on the morning of Aug. 28, the President's first inclination was to agree with the Prime Minister and publish the original note. However, he instructed Bruce to consult with the interested parties within the Department of State and to notify him later that day as to the Department recommendation on this matter. (788.00/8–2852)

With warm regards.

HARRY

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[4] Prime Minister Churchill's reply to the President on Aug. 29, said that he and his government strongly believed that there should be no textual changes in the joint message. (888.2553/8–2952) For the reasons which the British expressed regarding this matter, see footnote 2, *infra*.

No. 213

888.2553/8–2852: Telegram

The Acting Secretary of State to the Embassy in Iran[1]

TOP SECRET　　WASHINGTON, August 28, 1952—7:37 p. m.
PRIORITY　　NIACT

511. Pres and PriMin have decided that it is imperative that US and UK show world that good and fair proposal has been made to Mosadeq to provide basis for opening constructive negots settle oil dispute. You are therefore instructed to concert with ur Brit colleague and formally deliver to Mosadeq joint msg from Pres and PriMin. Dept favors adoption ur suggested drafting changes with additional change of placing last sentence of first para of proposal after first sentence that para. Text will then read:

> "There shall be submitted to the ICJ the question of compensation to be paid in respect of the nationalization of the enterprise of the AIOC in Iran. The validity of the nationalization law shall not be brought into question by either party. The Court in deciding the question of compensation shall take into consideration claims and counter-claims of both parties. If it shld appear that the two parties in preparing their respective claims and counter-claims have different views with regard to the legal situation prevailing in Iran prior to nationalization, the Court shall be at liberty to decide for itself what that situation was."

We do not know whether BritGov will agree and you shld be guided this respect by whatever instrs Middleton receives.[2] Immed

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[1] Repeated to London. Drafted by Stutesman and approved by Jernegan.

[2] Ambassador Gifford reported on Aug. 29 that he had seen Eden that day, and that the Foreign Secretary had concluded that the suggested changes outlined in telegram 1434 to London and those previously proposed from Tehran were undesirable. Eden thought that any changes might strengthen Mosadeq's belief that the original message was a trap, and that the United States and United Kingdom should not encourage Mosadeq to believe that he could summarily reject fair proposals put to him by the President and Prime Minister only to have them replaced by

Continued

upon delivery msg to Mosadeq, text proposals and cover msg is to be made public in Wash, London and Tehran and you are instructed to so inform Mosadeq. In this connection advise Dept immed when appt made to see Mosadeq. You shld bear in mind fact that best timing for US publicity purposes wld be for you to see Mosadeq at 4 p. m. or later Sat Tehran time.[3]

In accordance with ur request Embtel 901 Aug 28[4] timing and method delivery msg are left to ur discretion. However Dept notes that ur desire make separate calls on Mosadeq was based on dangers "undesirable speculation". Since full text proposals will be made public it may be more advisable for you and Middleton to go again together to reaffirm joint US-UK support this proposal.

Press conference will be held in Dept and all US informational media will carry text proposal and gen comment along fol lines:[5]

1. Proposal is fair and open proposition with no strings attached. Its gen broad character shows that it is intended primarily as wedge to break log jam of oil dispute.
2. Proposal has advantages of simplicity and generality of terminology and constitutes direct approach from US and Brit to Govt of Iran.
3. It shld enable Iran nation to fulfill its natl aspirations, and does, we believe, meet objections raised re previous proposals.
4. Proposal is wide enough to provide ample basis for opening constructive negots.
5. Proposal is result long and careful consideration of problem and frequent exchange of ideas between ourselves, Brit and Irans.

Dept does not intend to tell press msg was shown Mosadeq Aug 27 but if pressed we may have to confirm that proposals were discussed with him that day.

For Holmes: Pls pass substance foregoing to FonOff.

BRUCE

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something more favorable. Eden also told Gifford that Middleton was being instructed to concert with Henderson regarding the delivery of the message. (Telegram 1180; 888.2553/8-2952)

[3] On Aug. 29 Ambassador Henderson reported that Middleton had received instructions to deliver the note unchanged, and that he and Middleton were trying to arrange an appointment to see Mosadeq either at 4 p. m. or after 7 p. m. local time on Aug. 30. (Telegram 918; 888.2553/8-2952)

[4] See footnote 2, *supra*.

[5] Secretary Acheson read a statement along these lines at his press conference on Sept. 3. For text of this statement, see Department of State *Bulletin*, Sept. 15, 1952, p. 405.

No. 214

888.2553/8-3052 Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET NIACT TEHRAN, August 30, 1952—5 p. m.

931. Eyes only Bruce and Byroade, Dept. No other distribution whatsoever. Joint tel drafted by Henderson and Middleton.

1. We called on Mosadeq this afternoon at 3:30 in order to deliver to him joint msg from Pres US and PriMin UK. Henderson opened substantive part of conv by referring to our conv of Aug 27 during which after discussing proposed joint msg we decided to postpone its delivery until further instrs had been recd from the UK and US Govts. These instrs had now been recd and in pursuance of them we were delivering joint msg. In doing so we wished again to emphasize that msg was being sent in spirit of friendliness and in sincere hope that it wld lay basis for solution of oil problem.

2. Middleton said that he wished to associate himself with remarks made by Amer Amb. The msg was conceived in amity and sympathy. He hoped Dr. Mosadeq wld give it the same careful study as its authors gave to its preparation. HMG earnestly asked that the talks arising from the msg shld take place in an atmosphere free from recrimination and in spirit of impartiality. Finally Middleton said HMG who were devoting so much to the defense of the free world hoped that the Iran Govt wld see fit to take measures against Communist and subversive elements who only seek to harm relations between the two countries.

3. Henderson said that since the PriMin had made it clear that it wld be necessary for msg to be published immediately after delivery, US Govt wld issue text of msg to press today. Spokesman for US Govt wld simultaneously make statements to the press indicating the friendly spirit in which it had been sent. Middleton said HMG wld also publish today.

4. Mosadeq remarked that if the msg was the same as that discussed on Aug 27 he must in all frankness say that it wld have an evil effect. Turning to Henderson he said Irans were not donkeys and cld no longer be deceived by professions of friendliness.

5. Addressing himself to both of us Mosadeq said that he wld be answering note shortly. But he cld not disguise that public reaction wld be unfavorable and that his govt wld never enter into the kind of agrmt suggested. He cld only suppose that we wished to get rid of him and bring in another govt. We both demurred and again

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[1] Repeated to London eyes only for the Chief of Mission.

urged him to recognize the genuinely helpful spirit in which the msg had been prepared. He did not respond. He was clearly disappointed, resentful and worried.

6. Middleton in course of his remarks made it clear that HMG considered that the msg constituted a reply to the Iran note of Aug 7.[2]

Henderson

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[2] See footnote 2, Document 197.

No. 215

888.2553/9-2052: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET TEHRAN, September 20, 1952—2 p. m.

1220. 1. Embassy understands that Mosadeq has been preparing formal reply to joint US-UK message regarding oil. Although certain sections Iran press hint reply will be delivered only to British I believe he will send reply also to US. It is not yet clear, however, whether US reply will be delivered through US Embassy Tehran or through Iranian Embassy Washington now that Mosadeq has trusted agent as Amb to US.

2. Ala told me September 18 he thought Mosadeq had finally been persuaded that it would be inadvisable to incorporate in reply mention of possible severance diplomatic relations. Mosadeq was insisting, however, that reply shld contain statement that Iran desired British answer to it within five days. Ala still hoped, however, that Mosadeq wld finally agree exclude all passages which might smack of ultimatum.

3. Bayat, Vice President Senate and member Mixed Oil Commission, called afternoon Sept 19. He told me reply to joint proposals wld contain no reference to severance diplomatic relations and no suggestion that British reply should be made within any set period. He said he hoped that British wld consider offer as counterproposal conciliatory character which if not fully acceptable shld be met by another counterproposal on part UK. During our talk Bayat said that in his opinion Mosadeq might be willing negotiate regarding 50 million pounds but cld not possibly accept formula which wld give AIOC right to present to ICJ huge claims based on losses of future profits. Bayat may be right. I believe, however, that Mosadeq earnestly desires from British large sum in order enable Irani-

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[1] Repeated to London.

an Govt continue function and to permit it to introduce certain internal reforms. Also he wld like convince Iranian people he has made good bargain with British. It possible however, he might be willing make certain concessions in this matter. I agree with Bayat that Mosadeq not likely in face aroused Iranian public opinion make concessions which wld give AIOC right to present to ICJ large claims for losses of future profits.

4. More temperate Iranians are for most part distressed and alarmed at direction which Mosadeq and certain his advisers, particularly those of Iranian party, are leading country. Belief is becoming rather widespread that diplomatic break with UK is now inevitable and that this break will be followed by intensification anti-West propaganda and sentiment. Rumors are current that shortly after severance diplomatic relations with British or simultaneously therewith US military advisers will be invited to leave country and US Consulates will be closed. Various Iranians who are in full sympathy with Mosadeq but who wld not like Iran go so far as diplomatic break with British are expressing hope that Mosadeq's strong word "will bring US and UK to realization of seriousness of game which they are playing re Iran and will cause these two countries to revise their policies re Iran". An Iranian official, particularly close to Mosadeq, in discussing latter's threat to break diplomatic relations with UK, in typical Iranian fashion, said to me "Can't you understand, we do not expect relations to be broken; we expect US to prevent us from breaking relations by persuading British to understand our position and yield to our demands."

5. Hints of *coup d'état* or resort to tactics of violence are becoming more open. . . .

6. Iranian political leader who has been member of one of Mosadeq's previous Cabinets, also called on me yesterday. This leader who has in past had close relations with Kashani expressed opinion Iran cld now be saved only by some form coup. When I expressed doubt at permanent success venture this kind, he agreed. He then began in rather hopeless way to urge that no time be lost in giving consideration to possibility of "Iranian Govt in exile" in event Iran or most of Iran is taken over by Communists. He said that Kashani had assumed even stronger position against British than Mosadeq and he no longer believed that Kashani cld save country from drifting toward communism. This particular political leader maintained Mosadeq cld not retreat from his present position re oil disputes; he was certain British wld not yield; therefore Iran was faced with catastrophe.

HENDERSON

No. 216

888.2553/9-2652

Memorandum by the Secretary of State to the President

[WASHINGTON,] September 26, 1952.

Subject: Letter from Dr. Mosadeq

There are transmitted for your attention a copy of the letter from Prime Minister Mosadeq of Iran to you dated September 24, 1952, a summary of Dr. Mosadeq's views, and the complete text, as received from the U.S. Embassy in Tehran, of the Iranian Government's reply to the joint message put forward by Prime Minister Churchill and you to Dr. Mosadeq.[1]

The Department's comments will follow later.

DEAN ACHESON

Attachment Number Two

SUMMARY OF THE IRANIAN GOVERNMENT NOTE OF SEPTEMBER 24

The joint US-UK proposal cannot be accepted nor approved by the Iranian nation. Before proceeding with the transmission of a counter proposal, it is necessary to explain briefly the position of the Iranian Government in regard to the message.

1. The proposals are inconsistent with Iran's oil nationalization law.
2. Iran desires to strengthen friendly relations with the British people.
3. Iran has always been prepared to negotiate within the limits of legal principles for the settlement of the oil dispute.
4. Failure to achieve any results up to this time is "due to the fact that the British Government has desired to retain the influence of the former AIOC under other titles in the same shape and form as before in violation of the law and of the rights and desires of the Iranian nation".
5. The proposals are "not only inequitable but far more inequitable than previous proposals".

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[1] Mosadeq's letter to President Truman and the text of the Iranian Government's reply to the joint U.S.-U.K. message are not printed. The summary of Mosadeq's views, printed below as attachment 2, is a synopsis of his letter addressed to Prime Minister Churchill. Presumably Mosadeq's letter to Churchill and the text of the Iranian Government's reply are the same document. The verbatim text of Mosadeq's letter to Churchill is in telegrams 1269 and 1270 from Tehran, Sept. 24. (888.2553/9-2452 and 888.2553/9-2552)

6. The British Government seeks to convert the oil dispute from an internal affair in Iran into a dispute between two Governments.

7. It is feared that Article 1 of the proposals is designed to legalize the "invalid 1933 agreement which has never been acceptable to the Iranian people".

8. If Article 2 of the proposals means that "a purchase monopoly be given to a specific company . . .[2] this will never be approved by the Iranian nation".

9. Article 3 of the proposals admits "that the British Government's motive in its previous measures to bring economic pressure on the Iranian nation" were designed to force Iran to submit to "unfair terms".

10. In order for the Iranian Government "to make a definite decision" about paragraph (a) of Article 3 "views about the price (of oil stored at Abadan)" should have been specified.

11. "It is neither friendly nor equitable to make the removal of illegal restrictions contingent upon the acceptance of certain terms" as suggested in paragraph (b) of Article 3.

12. Iran nationalized the oil industry for two reasons: (a) "to eradicate foreign influence", and (b) "to improve economic conditions".

13. "In the present circumstances, Iran may follow one of two roads: (a) 'It should endeavor to improve social conditions and ameliorate a situation of the deprived classes, something that would be impossible without oil income'; and (b) 'If this road should remain blocked, Iran should surrender itself to probable future events which would be to the detriment of world peace'."

COUNTER PROPOSALS

"Iranian courts are the only competent channel for investigating the former company's claims and are prepared to adjudicate them, but should the company not wish to refer its claims to the abovementioned competent authorities, and should the International Court of Justice at The Hague be able to deal with the dispute between the Iranian Government and the former AIOC on the basis of an agreement between the two parties, and should there be no illusion that such action recognizes the existence of the dispute between the two Governments, my Government, in order to show its good will, after agreement on the four articles below, is prepared to agree to the judgment of the International Court." In this case, the court will be requested to issue its final verdict as soon as possible and within six months.

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[2] Ellipsis in the source text.

Article 1—Compensation

"Determination of compensation to be paid for property belonging to the former AIOC at the time of nationalization of the oil industry in Iran" and arrangements for paying this by installments will be based on any law selected by the former AIOC which has been used by any country for nationalizing its industries in similar instances. This is the only compensation which the Iranian Government will pay, and the company will have no right to make any further claims whatsoever.

Article 2—Basis of Examination of Claims

The ICJ shall use as a basis for judgment one of the following: (a) Claims of the two parties up to the date of nationalization to be on the basis of the D'Arcy Agreement[3] with due regard to calculation of income tax which the Iranian Government should have received. The D'Arcy Agreement cannot be applied beyond the date of nationalization. (b) Claims from 1933 to the end of 1947 and from the beginning of 1948 to April 30, 1951 to be on the basis of the abovementioned invalid agreement and the Gass-Golshayan Supplementary Draft Agreement[4] which was signed by the former AIOC but not by the Iranian Government. These agreements cannot be applied beyond the date of nationalization. (c) The claims of both parties to be examined on the basis of the fairest concession agreements of other oil producing countries in the world where the cost of producing oil according to that concession is not less than producing Iranian oil during a corresponding period.

Article 3—Determination of Damages

In determining damages due the Iranian Government there shall be taken into consideration the obstruction of sales of Iranian oil by the AIOC as well as losses resulting from the delay in payment of debts owed by the company.

Article 4—Payment in Advance

The AIOC shall pay 49 million pounds in sterling convertible into dollars. If the court does not consider Iran entitled to this amount, restitution shall be made in oil.

The foregoing proposals must be accepted in their entirety and are valid for ten days.

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[3] The D'Arcy Agreement, named for William Knox D'Arcy, was the original oil concession which had served as the basis for the Anglo-Iranian Oil Company's operations in Iran. It was negotiated on May 28, 1901; was to last for 60 years; and the Iranian Government obtained only 16 percent of the profits accruing to the exploration and development company.

[4] See footnote 3, Document 211.

"The Iranian Government will take up through the International Court of Justice as a case between two governments the question of losses caused" by the British Government through its support of the "former company", as well as losses resulting from restrictions imposed on exports to Iran and on the use of sterling.

No. 217

888.2553/9-2952: Telegram

The Secretary of State to the Embassy in Iran[1]

SECRET WASHINGTON, September 29, 1952—8:06 p. m.
NIACT PRIORITY

784. Brit Emb this morning handed us fol three msgs:

A. Text of tel from Fon Sec to HM Chargé d'Affaires in Wash.

"Form of Mussadiq's reply and manner of its delivery show that, apart from an obvious desire to keep oil dispute going, his main object is to divide US and ourselves. Mussadiq has also distorted and misrepresented joint proposals. He even omits altogether to mention one of our points, namely grant of 10 million dollars from US and does not come seriously to grips with suggestion of negots with AIOC for purchase of oil. His counterproposals are unacceptable.

2. Mussadiq's accusations against HMG and co must be refuted. We cld not however expect USGov to subscribe to detailed refutation and we therefore think that best course wld be to send Mussadiq short joint reply bringing him back firmly to earlier joint proposals, and for HMG alone to reply in detail to Mussadiq's allegations. You may so inform State Dept.

3. In these circumstances PriMin and I have agreed on terms of possible joint reply and text of msg to Mr. Truman. Pls convey these to him."

B. Text of msg from Churchill to Pres:

"You will no doubt have already seen lengthy msg which Mussadiq sent me in reply to our joint tel. Anthony and I have prepared draft answer for ur consideration. Evidently his hope is to avoid our joint approach. It seems for this very reason all more important that we shld continue together. Britain has suffered by Persian depredations losses which I am told may amount to 60 millions pounds Sterling a yr across dollar exchange. We cannot I am sure go further at this critical time in our struggle for solvency than proposals which you agreed were fair and just. It seems also to me, if I may say so, that it wld be hard prospect for Amer taxpayer to have to bribe Persians (and how many others?) not to become Commies. Once this process started it might go on long time in lot of places. Naturally I have thought great deal about danger of Tudeh revolution and Sov infiltration or aggression. I may of course be wrong but as I at present see it I do not feel that it will happen that way in near future. Anyhow it seems far more likely that Mussadiq will come to reasonable terms on being confronted with continued Truman-Churchill accord. I earnestly hope therefore that we can send him msg from us both on lines of this draft."

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[1] Repeated to London. Drafted and signed by Byroade.

C. Text of draft joint reply to Mussadiq:

"We are disappointed to see from ur msg that our joint proposals shld have been misunderstood in so many ways. Ur fears that proposals fail to recognise Persia's nationalisation of oil industry, or seek to reinstate 1933 Concession, or think to impose monopoly purchase of oil, have no foundation.

All three of us are agreed that question of compensation shld be decided by Internatl Court. UK and US Govts think that Court shld be free to consider matter in all its aspects. To contend that only those aspects favourable to Persian claims shld be considered wld prejudice decision of Court. We cld not accept this attitude and we urge Persian Govt to reexamine our proposals which are reasonable and fair, and, if accepted, wld bring immediate substantial benefit to Persian people."

ACHESON

No. 218

888.2553/10-252: Telegram

The Secretary of State to the Embassy in Iran[1]

SECRET PRIORITY WASHINGTON, October 2, 1952—10:38 a. m.
NIACT

805. Eyes only Ambs Gifford and Henderson. Fol personal msg from Pres to Churchill was handed to Brit Amb late last night and is rptd FYI:

"I do not believe that joint reply to Mosadeq's note wld be wise. I had hoped that our reasonable and fair joint offer which seemed to meet Mosadeq's principal points of difficulty wld break log jam. I am now convinced that Mosadeq will not and believes he cannot (if he is to survive) accept this solution. Situation in Iran has deteriorated so far that he is threatened by extremists who will not have it. To lock ourselves into this offer by joint reply reasserting it seems to me to so constrict our future relations with Iran as to preclude any influence or action which might help to save country. I believe that pressure will not save it by bringing Mosadeq to reason but will hasten its disintegration and loss.

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[1] Also sent to London.

We both want accomplish same results in Iran—prevent Commie take-over and preserve moral and legal rule of just compensation for property taken.

There seems very little that any reply as such can accomplish except keep record straight. I can understand, too, ur belief that you must answer accusations made against Brit action in Iran.

So I think that if this Govt replies at all it shld do so separately. We are thinking of something along lines which Acheson will show to Sir Oliver.

With warm regards, Harry."

Fol is proposed msg to Mosadeq from Acheson referred to in foregoing msg:

"I have been in touch with Pres since he recd ur msg of Sept 24, 1952, and, since he is away from Capital at this time, he has authorized me to acknowledge ur ltr. He is disappointed to learn from it that you have found unacceptable proposals which were put forward on Aug 30, 1952.

It had been our understanding that Iran Gov's position was that negot for settlement of oil dispute must take into account: (a) fact of nationalization, (b) complete independence of Iran in operation of its oil industry, and (c) freedom of Iran to sell its oil on other than monopoly basis.

It was and is our sincere belief that proposals which were put forward on Aug 30 met these points. These proposals clearly recognized fact of nationalization and did not seek to revive 1933 Concession, or any concession. Neither fon management of industry nor employment of technicians was put forward as condition, or even suggested. There was no intent to propose monopoly of purchase of Iran oil.

Other questions existed as well, involving claim for compensation by Co and counter claims by Iran. We suggested method of settlement of all claims by impartial adjudication. There are doubtless other equitable methods. In regard to question of price to be paid for Iran oil, we suggested that this shld be worked out between purchaser and seller rather than by Govts.

Regardless of acceptability of proposals of Aug 30, it is matter of regret to us that their meaning shld have been misunderstood. We have tried to correct this because of real importance which attaches to our words being understood by you as they were meant by us."

Secy informed Franks we wld await Brit comments before presenting msg to Mosadeq.

ACHESON

No. 219

888.2553/10-352: Telegram

The Secretary of State to the Embassy in Iran[1]

SECRET PRIORITY WASHINGTON, October 3, 1952—8:59 p. m.
NIACT

820. Eyes only Henderson and Gifford. Brit Emb today informed Dept that Eden considered it extremely important that we maintain position of solidarity set forth in joint US-UK proposals to Mosadeq, and stated that Mr. Churchill was deeply disappointed to learn from President's msg that he did not wish to join in reply to Mosadeq's counter-proposals. Mr. Eden hoped nevertheless that we might agree on joint reply to be signed by him and me on behalf of Mr. Churchill and President. In line with this suggestion Brit agreed to accept draft of our proposed msg to Mosadeq but with certain minor changes.

This afternoon Brit Emb made available to Dept preliminary draft of proposed Brit refutation to points in Mosadeq's counter-proposals and later Brit Amb called to discuss both msgs with me.

Brit Amb was informed that President in his reply to Churchill said "I can understand too your belief you must answer accusations made against Brit action in Iran. So I think that if this Govt replies at all it shld do so separately". The Brit proposal went directly contrary to this by proposing that we both make joint or identic replies and that Brit wld then fol by another msg which in fact seemed to us unnecessarily provocative. This meant we wld be associated with this second msg. Brit Amb then inquired whether, in event Brit preferred make reply similar or identical with ours and were willing drop any further and separate msg, we wld be willing proceed with our suggested reply to Mosadeq.

We made it clear to Brit Amb that we had not through President's msg, nor were we now, attempting exercise pressure on them to influence form their reply. We were concerned with protecting ourselves against association with their second msg which might limit effectiveness of anything we might do in future.

After consultation with President, I informed Brit Amb that you wld be instructed to deliver fol msg to Mosadeq providing (1) Middleton receives instructions to submit similar parallel msg (we wld not object to deletion by Brit in their msg of words "there are doubtless other equitable methods" although we must retain this in our msg. We wld indeed prefer that they paraphrase our msg although we do not insist on this), and (2) providing Middleton receives instructions to assure you that Brit will not deliver any other reply in any form. Otherwise you are not to deliver any msg to Mosadeq and shld await further instructions. In this event Middleton is of course free to deliver any msg he may receive.

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[1] Repeated to London. Drafted by Richards; cleared with Secretary Acheson, Under Secretary Bruce, Deputy Assistant Secretary for European Affairs James C.H. Bonbright, and Deputy Assistant Secretary for Economic Affairs Linder; and approved by Jernegan.

Our msg fols.

Msg to Mosadeq from Acheson to be delivered only if foregoing conditions are met:

"I have been in touch with the Pres since he recd your msg of Sept 24, 1952, and, since he is away from the Capital at this time, he has authorized me to acknowledge your ltr. He is disappointed to learn from it that you have found unacceptable the proposals which were put forward on Aug 30, 1952.

It had been our understanding that the Iran Govt's position was that negot for settlement of the oil dispute must take into account: (a) the fact of nationalization, (b) the complete independence of Iran in the operation of its oil industry, and (c) the freedom of Iran to sell its oil on other than a monopoly basis.

It was and is our sincere belief that the proposals which were put forward on Aug 30 met these points. These proposals clearly recognized the fact of nationalization and did not seek to revive the 1933 Concession, or any concession. Foreign management of the industry was not put forward as a condition, or even suggested. There was no intent to propose a monopoly of the purchase of Iran oil.

As regards claim for compensation by the Co and the counter claims by Iran, we suggested a method of settlement of all claims by impartial adjudication. There are doubtless other equitable methods. In regard to the question of the price to be paid for Iran oil, we suggested that this shld be worked out between purchaser and seller rather than by Govts.

Regardless of the acceptability of the proposals of Aug 30, it is a matter of regret to us that their meaning shld have been misunderstood. We have tried to correct this because of the real importance which attaches to our words being understood by you as they were meant by us. Acheson".

If Mosadeq gripes about a parallel reply you may point out to him tactfully that in light of his "counter proposals" the net situation might have been considerably worse and urge him to apply himself to constructive nature of msg which leaves door open to further efforts by all concerned.[2]

Acheson

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[2] On Oct. 4 the Department informed Ambassador Henderson that Foreign Secretary Eden had agreed to the delivery to Mosadeq of short parallel messages, and that there would not be a further British reply to Mosadeq's note. Therefore, Henderson was authorized to deliver the note to Mosadeq contained in telegram 820, after concerting action with Middleton. (Telegram 825; 888.2553/10–452)

No. 220

888.2553/10-452: Telegram

The Ambassador in the United Kingdom (Gifford) to the Department of State[1]

SECRET NIACT LONDON, October 4, 1952—3 p. m.

1986. Eyes only Secretary, Byroade and Henderson. FonOff has instructed Middleton assure Henderson in accordance second numbered point para 5 Deptel 2412, Oct 3, rptd Tehran 820 and to concert in delivery fol msg from Eden paralleling that from Secretary:

"Mr. Churchill and I and our colleagues in HM Govt are disappointed to see from your message that our latest proposals for a settlement of the oil dispute should have been misunderstood in so many ways. The fears which you express are without foundation. The proposals in no way fail to recognize Persia's nationalization of her oil industry or seek to revive the 1933 concession. There was no suggestion that there should be foreign management of the oil industry, still less was this put forward as a condition. We did not contemplate a monopoly of the purchase of oil.

3. [*sic*] The proposals suggested an equitable method, not necessarily the only method, of settling all claims and counterclaims of both sides by impartial adjudication. We said nothing about price of oil because that falls to be discussed as between seller and purchaser and not between govts.

4. I am sending you this message in order that you and your countrymen may know exactly what we had in mind."

GIFFORD

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[1] Repeated to Tehran.

No. 221

888.2553/10-552: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET NIACT TEHRAN, October 5, 1952—1 p. m.

1375. 1. I called on PriMin at 11 this morn few minutes after departure of Middleton in order deliver msg. He was most courteous and passed considerable time in amenities apparently desiring to postpone moment of delivery of msg. I pointed out to him that in his recent ltr to Pres he had merely acknowledged receipt of joint msg and had enclosed copy of ltr addressed to Mr. Churchill commenting re that msg. Mosadeq wld note that Secy's reply on behalf of Pres which I was giving him had confined itself to attempt to remove certain misapprehensions which PriMin seemed to have with regard to joint msg. While PriMin was reading Secy's msg, he handed to me text of Brit msg which had been left with him by Middleton[2] with request that I read it. Before commenting on US msg, he asked what I thought of Brit msg. I said that I cld not properly make any comment.

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[1] Repeated to London.

2. Mosadeq said that he was appreciative of clarification contained in US msg, but he was afraid that this clarification wld not entirely eradicate bad impression made in Iran by dispatch of joint msg. He was confident that Pres had signed joint msg in good faith; nevertheless that msg had not been helpful. He said what he needed just now was 49 million pounds and added with twinkle in his eye that he regretted that US had persuaded Brit not to give it. Despite PriMin's attempts at humor, he was obviously much worried and during our brief conv several times he employed gesture which I have seen him use so often when under strain, that of holding his head in both hands and closing his eyes. Before my departure he said he really was puzzled. He did not know what Brit had in mind. It looked to him that they still were hoping to reduce Iran to such chaotic econ and finan position that Iran wld lose all power of resistance and again submit itself to Brit rule. I ventured to disagree with him saying I confident that Brit were just as anxious as he to come to agrmt which wld be fair to all concerned. The problem was difficult for UK as well as for Iran.

3. PriMin did not indicate what course of action he might follow.

HENDERSON

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[2] Transmitted in telegram 1986, Oct. 4, *supra*.

No. 222

888.2553/10-752: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET NIACT TEHRAN, October 7, 1952—11 p. m.

1428. 1. Following is a translation (re Embtel 1427 of October 7)[2] of letter addressed to Secretary sent to me late this evening by Mosadeq:

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[1] Transmitted in two sections; repeated to London.

[2] In telegram 1427 Henderson informed the Department that Mosadeq was about to hand him a letter addressed to Secretary Acheson. (888.2553/10-752)

"The Honorable Mr. Acheson, Secretary of State of the USA.

I have received the reply to my counterproposals which was sent on behalf of His Excellency, the President of the USA, through the Honorable the American Ambassador in Tehran.

I have gratefully examined the explanations which were furnished with a view to removing the ambiguity of the joint message dated August 30, 1952. (Shahriva 8, 1331). I am most grateful for the efforts exerted by the respected authority of Your Excellency's Government towards the settlement of current disputes. However, as to the statement that 'he is disappointed to learn from it that you have found unacceptable the proposals which were put forward on August 30, 1952,' I think that in my counterproposals dated September 24, 1952, the reasons for the non-acceptance of joint message were sufficiently explained. It is possible that His Excellency, the President does not remember that 19 months have elapsed since the date of the nationalization of the oil industry throughout Iran while in the meantime nothing useful has been accomplished towards this element of differences, and the question of determination of compensation has been entirely left to correspondence and procrastination.

The Iranian Government and nation have every day been faced with new social and economic difficulties arising from the economic blockade of Her Britannic Majesty's Government.

The greatest goodwill was shown and maximum possible concessions for the settlement of this question were made in my counterproposals. In order that this goodwill and earnest desire to bring this matter to an end may even more be fully evinced, I have, in reply to the message from His Excellency, Mr. Eden, Her Britannic Majesty's Foreign Secretary, made a proposal, a copy of which is enclosed for Your Excellency's information, to the effect that plenipotentiary representatives of the former Anglo-Iranian Oil Company be sent to Tehran to discuss the terms of the counterproposals dated September 24, 1952. With a view to alleviating the economic and financial situation of Iran, and also in order that the former company may provide a token for the fulfillment of obligations assumed by it in the past, it has been added to the said proposal that prior to the departure of the plenipotentiary representatives of the company, which will be one week from this date, it should place at the disposal of the Imperial Ministry of Finance a sum of 20 million pounds sterling on account convertible into dollars (out of the 49 million pounds), and arrange for the payment of the balance thereof upon the termination of negotiations which are anticipated to last three weeks.

It is not necessary to explain that during the last year and a half the Iranian Government and nation have suffered huge losses as a result of procrastination and exchange of notes and correspondence, in such a way that no fairminded and unbiased individual would hold the Iranian Government and nation responsible for any sinister consequence and unfortunate development which may result from the maintenance of this policy.

I wish to invite Your Excellency's careful personal attention to the serious and basic implication of the preceding sentence and to existing conditions. I am certain you will agree that the prompt and immediate settlement of this matter would be a great and important contribution towards insuring the peace and public security of one of the sensitive areas of the world.

I request you to convey to His Excellency the President the expression of my highest consideration and to accept my sincere appreciation of the efforts he has exerted and is still exerting to find a solution for the existing differences. (Signed Dr. Mohammad Mossadegh, Prime Minister. October 7, 1952 (Mehrmah 15, 1331))."

2. Fol is translation of enclosure addressed to Brit Foreign Secretary:

"His Excellency Mr. Eden, Her Majesty's Secretary of State for Foreign Affairs.

Your note dated 5 Oct 1952 which recognized in its entirety the action of the Iranian Govt in nationalizing its oil industry, and stated that it did not intend to revive the invalid 1933 Concession Agreement, nor to interfere in the admin of the Iranian oil industry and recognized the Iranian Govt's freedom to sell its oil products was handed to me by the Brit Chargé d'Affaires in Tehran.

With due regard to the fact that the contents of the message in question in the parts mentioned above are in accordance with the indisputable rights of the Iranian nation, I take cognizance of the foregoing and at the same time regret that in this message, which was in answer to my message of 2 Mehr 1331 (24 Sept 1952), you did not make any reference to the counter-proposals dated 2 Mehr 1331 (24 Sept 1952). I find it necessary to inform you again that the object of my counter-proposals was to avoid wasting time and to show an equitable way of investigating the claims of the former oil company and the counter-claims of the Iranian Govt. Now I once again with the same object in view declare my readiness for discussion and settlement of this question. In order that the dispute may be definitely and clearly disposed of as soon as possible, representatives of the former AIOC, invested with full powers, are invited to leave for Tehran within a week as from today's date, for the purpose of necessary discussions within the limits of the Iranian Govt's counterproposals. Taking into consideration the several years delay by the former company in paying its debts to the Iranian Govt and also the Iranian Govt's need for immediate aid, before the departure of its representatives for Iran the former oil company shld put at the disposal of the Iranian Min of Finance the sum of 20 million pounds convertible into dollars, out of the 49 million pounds mentioned in Article 4 of my counterproposals dated the 2nd Mehr 1331 (24 Sept 1952). The remainder of the above-mentioned sum shld be placed to the credit of the Iranian Govt at the end of negots, for which a maximum period of three weeks is envisaged.

In conclusion it is expected that the complete goodwill of the Iranian Govt towards a just solution of differences which has been reaffirmed in this note, will be well received and made use of. Your Excellency's attention is particularly drawn to the point that the Iranian Govt has always indicated the serious consequences of procrastination and delay in reaching agreed and definitive solution of the differences. I once again remind you of the impossibility of the continuation of this state of affairs and any eventuality arising from pursuit of this policy is not the responsibility of the Iranian Govt. Doctor Mohammad Mossadegh, Prime Minister, 15 Mehr 1331."

HENDERSON

No. 223

888.2553/10-1052: Telegram

The Secretary of State to the Embassy in Iran[1]

TOP SECRET PRIORITY WASHINGTON, October 10, 1952—7:12 p. m.

889. Eyes only Ambassador. In conversation with Brit Amb Oct 9 Secy stated he felt Mosadeq's last reply wld probably be unacceptable to Brit and we therefore must consider seriously possibility that Mosadeq wld break off relations with Brit at expiry seven-day period. This wld be unhelpful and wld not make further negots easier.

Secy stated that prior Mosadeq's latest note Dept had been working on some ideas for solution (Embtel 1413 Oct 7).[2] It seemed that problem broke down into three main pts:

First was compensation and counterclaims. On this we felt that no agreement as to principles was possible; that only solution might be lump sum settlement, preferably in oil, but possibly expressed in money terms and liquidated in oil.

Second part of problem was how get Mosadeq sum of money in hurry. Dept assumed wld be difficult for UK recognize validity Mosadeq's demand for immed payment 49 million pounds; that probably only way for Mosadeq to get money immed wld be advances against future oil sales.

Third question was kind of contract for purchase against which such advance might be made.

Secy then informed Brit Amb that our preliminary thinking was that company might be formed to purchase oil from NIOC for resale, principally to AIOC as chief (but not sole) buyer. Brit Amb inquired whether we had any particular firms in mind who might participate in formation of company. Secy replied that with respect to major oil companies we had certain legal difficulties exemplified by present anti-trust proceedings. There were other possibilities such as one or more Amer companies not operating in ME, or private US firms not involved in oil business, or certain fon firms might be considered. Disadvantage of company formed by Eur oil companies wld be that it wld be most difficult or probably impossible for Exim Bank to assist in financing such group.

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[1] Repeated to London. Drafted by Richards and Byroade and signed by Byroade.

[2] In telegram 1413 Ambassador Henderson reported that he had a conversation with Mosadeq who gave him a cable from Saleh, Iranian Ambassador in Washington, which recounted Saleh's conversation with Secretary Acheson on Oct. 3, in which the Secretary urged that Iran avoid breaking diplomatic relations with the British. Henderson also reported that Mosadeq then informed Henderson that he was planning to present another set of proposals to the British, which Henderson transmitted to the Department in telegram 1428, Oct. 7, *supra*. (888.2553/10-752)

Secy said he felt it important if possible that some indication shld be given Mosadeq before or at about time he received Brit reply that there were further ideas to discuss. This might prevent Mosadeq from being precipitant in breaking off relations. Secy stated he had no clear ideas as to how this shld be done. Clearly any proposals corresponding to the three fundamentals above stood a much better chance of success if they were accepted by Mosadeq and then put forward to Brit. (FYI. We are thinking of possibility, shld Brit not be adamantly opposed to this type of approach, of sending someone from here, probably Nitze, on a quick trip to Iran.) In view of delicacy with which matters must be approached, if there is to be chance of success it is obvious every precaution be taken against a leak that we are considering with Brit a possible new approach.

Brit Amb was then handed copy of prelim draft of possible formula for settlement Iran oil dispute. This draft, which was understood to be schematic only, fols:

"1. The National Iranian Oil Company will agree to deliver free of charge 15 million tons of crude oil and 15 million tons of oil products [The distribution between products shall be in the same ratio as the distribution between products in the aggregate output of the Abadan refinery unless otherwise agreed.][3] in full settlement of all claims by or against the Anglo-Iranian Oil Company, delivery to be at a rate of not less than 5 million tons a year. The Anglo-Iranian Oil Company will drop all claims against the National Iranian Oil Company and will give such assistance as the National Iranian Oil Company may request and Anglo-Iranian can conveniently give in helping the National Iranian Oil Company secure markets for its oil and oil products.

"2. The International Oil Distributing Company (a new company to be formed) will agree to purchase and the National Iranian Oil Company will agree to sell up to 25 million tons of oil and oil products per annum for 10 (15) years at 90% of the posted price of Gulf coast oil and oil products delivered north of Cape Hatteras less U.S. import duties and less $1.70 per barrel freight allowance. To the extent that the International Oil Distributing Company realizes on excess over the posted price north of Cape Hatteras less U.S. duty and $1.70 freight allowance, the National Iranian Oil Company shall receive the benefit of such excess. The National Iranian Oil

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[3] These and all subsequent brackets are in the source text.

Company will make such oil and oil products available for loading as rapidly as production can be restored and the International Oil Distributing Company will lift and pay for such oil and oil products as rapidly as markets can be developed and tankers made available. Payment shall be in dollars or sterling, depending upon the currency in which sales by the International Oil Distributing Company are made.

"3. The International Oil Distributing Company will advance $100 million [Up to 50% of the advance and of its installments may be in sterling rather than in dollars. Repayment shall be in dollars or sterling in the same proportion as the original advance.] to the National Iranian Oil Company as an advance payment against future purchases of oil, $50 million to be paid on ———, the balance in equal monthly installments of $10 million; repayment to be at the rate of 25% of the purchase price of the oil and oil products purchased by the International Oil Distributing Company."

Foregoing has been communicated by Brit Amb to FonOff and to Middleton for their secret info and comment. Ur views wld be appreciated.[4]

ACHESON

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[4] On Oct. 11 Ambassador Gifford responded that Foreign Secretary Eden's reaction to these proposals was adverse; that the Foreign Office had sent a cable to the British Embassy in Washington which reported that the British were, however, willing to give further consideration to the Department's suggestions; that, regardless of the decision concerning the Department's proposals, the British Government felt compelled to make a reply to the latest Iranian note (telegram 1428, Oct. 7, *supra*) in order to set the record straight; and that a text of the proposed reply was enclosed. In conclusion, Gifford was doubtful that the British would accept these latest American suggestions. (Telegram 2129; 888.2553/10-1152) For the substance of the British telegram, see telegram 2592 to London, *infra*.

No. 224

888.2553/10-1252: Telegram

The Secretary of State to the Embassy in the United Kingdom[1]

TOP SECRET PRIORITY WASHINGTON, October 12, 1952—6:51 p. m.

2592. London eyes only for Gifford. Following is substance of telegram dated October 11 from Mr. Eden to Sir Oliver Franks:

"I am glad to see that Mr. Acheson also holds strong views on Musaddiq's latest message. As he surmises, we hope to reply within the seven-day period and our reply must be a firm negative. It must also be fairly detailed, since we have repeatedly been warned by Mr. Middleton that our case is in danger of going by default.

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[1] Repeated to Tehran eyes only for Henderson. Drafted and signed by Nitze.

I also agree with Mr. Acheson that we have probably exhausted the possibilities of a settlement by inter-governmental negotiation. There is at least a possibility that we may break the deadlock (without breaking the common front) by means of an indirect approach. We are in contact with a suitable person who should shortly be in a position to influence Musaddiq and who is willing to do his best. Any ideas he might wish to put forward would of course be his own and he would not be in the position of an intermediary. We understand that he has ideas of his own and we are ready to give him any information he requires.

We will examine Mr. Acheson's new idea with all possible speed and consult the Anglo-Iranian Oil Company who are of course vitally affected. We cannot promise to give our views before we have to deliver our reply to Musaddiq, but we are not optimistic about it at first sight.

I doubt whether anything we could say short of capitulation would deter Musaddiq from breaking off relations if his mind is made up. In any case I would rather run the risk of a break than commit myself in advance to a proposal which will almost certainly be found unacceptable and which Musaddiq himself would be likely to reject Mr. Acheson and his department have repeatedly recognised the fairness of the joint proposals and have declared they do not wish to urge us to accept or offer anything going beyond them."

ACHESON

No. 225

888.2553/10-1252: Telegram

The Secretary of State to the Embassy in the United Kingdom[1]

TOP SECRET WASHINGTON, October 12, 1952—6:51 p. m.
PRIORITY

2593. London eyes only for Gifford. Burrows has given us the substance of Mr. Eden's telegram of October 11 to Sir Oliver Franks and the draft UK note to Mossadegh.[2]

We had fully anticipated the note to Mossadegh would be of the general nature contained in the draft and have no comment to make with respect to it.

We fail to see the point of the last sentence of Mr. Eden's telegram as given to us, "Mr. Acheson and his department have repeatedly recognised the fairness of the joint proposals and have declared they do not wish to urge us to accept or offer anything going beyond them." Our last note to Mr. Mossadegh contained the statement that there were doubtless other equitable methods of arriving at a settlement of claims and counter-claims than the method put forward in the joint proposal. The British note contained similar language. What we are trying to do is to see whether another equitable and workable method can be developed. Since Mr. Acheson's conversation with Sir Oliver, we have done further work on our side and now believe that it may be possible for us to work out a procedure by which we could in a matter of days make available up to $100,000,000 as an advance against oil purchases. We further believe it may be possible for us to do this through Anglo-Iranian, or a subsidiary of Anglo-Iranian, which might eliminate the necessity for American private participation in an oil distributing company.

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[1] Repeated to Tehran eyes only for Henderson. Drafted and signed by Nitze.

[2] For text of the British note as handed to Mosadeq on Oct. 14, see Document 227.

It may also be that it would not be substantially more difficult to persuade Mossadegh to offer a lump sum settlement of 50,000,000 tons of oil than to persuade him to offer 30,000,000 tons of oil.

Burrows also stressed a continuing joint approach to the Iranian problem. To us a joint approach implies a full exchange of information and an effort to try to solve the problem. The question is how do we propose that the problem be solved. Do we really believe that Mossadegh or any other Iranian leader can or will accept the joint proposals as originally formulated? What ideas could the "suitable person" have? What is within the realm of the possible? Can a settlement really be conceived of without some substantial advance to Iran? How is this advance to be made unless it is against future oil purchase? Who is going to make this advance if the United States does not participate in it? What is the British analysis and how does it differ from ours?

If the conclusion were that the matter is insoluble, we would find that an unacceptable basis for a joint approach. If Mr. Eden thinks it would be helpful for someone from Washington to come over to London to discuss these matters, we will be prepared to do so.

There are two minor points which might merit clarification. Mr. Acheson did not say the possibilities of a settlement by intergovernmental negotiation are probably exhausted. Obviously no settlement is possible without intergovernmental negotiations of some sort. He said he thought the possibilities of negotiation as to the principles underlying a settlement of compensation are probably exhausted and that the best hope probably lay in a specific lump sum settlement. Also he had had no thought that Mr. Eden should commit himself in advance to any specific proposal; he made the reverse clear. He did, however, wish to exchange views promptly as to the general concepts involved.

Copy of above is being given to Burrows.

Hope you will have earliest opportunity discuss this with Eden.

Text of extract from telegram dated October 11 from Eden to Franks follows.[3]

ACHESON

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[3] See telegram 2592, *supra*.

No. 226

888.2553/10-1352: Telegram

The Ambassador in the United Kingdom (Gifford) to the Department of State[1]

TOP SECRET NIACT LONDON, October 13, 1952—10 p. m.

2160. Eyes only Bruce and Byroade. When I saw Eden today, I stressed the advantages of and importance we attach to our new proposals, indicating at same time dangers we see in a static policy. (Deptel 2593, Oct 12). I found Eden anxious about the situation and he repeatedly reiterated his desire to reach a solution. He did not, however, think our new proposals would be any more likely to commend themselves to Mosadeq than past proposals had been. Moreover, he saw difficulties in abandoning the principle of impartial determination of compensation by an international body, as proposed in the joint Truman-Churchill communication. I supported our proposals to the best of my ability, but at the end of the conversation I felt that some of his doubts still remained.

Soon after I left Eden, he went into conference with Churchill and other responsible ministers to consider nature of reply which should be sent to the Secretary. Strang has just conveyed to us result this meeting which in general terms is to effect that while Brit do not feel themselves able at this stage to agree even in principle to our suggestions, they do not want to reject them out of hand and are anxious to continue to explore them with us. Strang explained that a major difficulty which Brit see is method of determining compensation. Brit are not prepared at this point to abandon principle that compensation be determined by impartial international body in favor of lump sum determination. Strang also said there are number of points about scheme itself which are not clear to Brit, e.g. method of repayment of loan, priority which would be given to oil produced for compensation, etc. To help clarify these and other points and in order to assure more perfect understanding our proposals, Brit welcome suggestion that somebody should come over from Wash. Asked for his ideas on timing of the visit, Strang said "the sooner the better".[2]

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[1] Repeated to Tehran eyes only for Henderson and to the U.S. Mission at the United Nations in New York for the Secretary of State. (888.2553/10-1352)

Strang said that meanwhile Middleton must deliver the Brit reply to Mosadeq's latest note. A few changes have been made in the version which the Dept saw over the weekend and a few new points have been added. The general tenor of the note, however, remains substantially the same.

When I saw Eden, he told me that the "suitable person" mentioned in his message reported Deptel 2592, Oct 12 is Camille Gutt.[3] He had not felt free at that time to mention his name since he had not cleared matter with Churchill. Strang reverted to this question later, stating that Brit have sent FonOff official to Tehran explain their attitude on oil problem in general. They hope Gutt might be able while in Tehran to influence Mosadeq to some extent. Strang stressed that Brit do not regard Gutt as mediator, that they have no schemes which they hope he will advance, nor does Gutt himself have any in mind. Strang asked we regard Gutt appointment complete confidence.

In talking to Eden, I suggested that if one of his main objections to our scheme was a feeling that Mosadeq would not accept it perhaps some means could be found of quietly persuading Mosadeq through an intermediary to make the proposals as his own. I did not specifically mention Gutt to Eden in this connection, but it occurs to me that such a possibility might have merit if Gutt felt he could undertake such a job.

GIFFORD

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[2] The Department informed the Embassy in London on Oct. 14 that Nitze and several others tentatively were planning to arrive in London on Oct. 16. (888.2553/10–1352) The Department further informed the Embassy that same day in telegram 2651 that Nitze and his party were delaying their arrival for 1, possibly 2 days. (888.2553/10–1452)

[3] With the prospect of an oil-less economy facing Iran, a U.N. financial advisory mission headed by Camille Gutt visited Iran at the request of Dr. Mosadeq during November and December 1952, to study and make recommendations regarding banking, currency, and other fiscal problems.

No. 227

888.2553/10–1652: Despatch

The Ambassador in Iran (Henderson) to the Department of State

No. 292 TEHRAN, October 16, 1952.

Subject: Transmittal of Note from the British Government to the Iranian Government.

There are transmitted herewith five copies of the note from the Government of the United Kingdom to the Iranian Government of October 14, 1952, concerning the oil question. These copies were made available by the British Embassy in Tehran.

For the Ambassador:
CARL F. NORDEN
First Secretary of Embassy

[Enclosure]

TEXT OF NOTE DATED 14TH OCTOBER FROM HER MAJESTY'S GOVERNMENT IN THE UNITED KINGDOM

Her Majesty's Government note with regret that in spite of the recent messages from Mr. Acheson on behalf of the President of the United States of America and from Mr. Eden on behalf of Her Majesty's Government in the United Kingdom correcting certain misunderstandings which appear to exist in the mind of the Iranian Government as to the meaning of the joint proposals put forward on the 26th August 1952, the Iranian Government should still be unwilling to regard these proposals as an equitable basis for the solution of the oil dispute and should revert to the counter-proposal contained in the Iranian Government's note of the 24th September 1952. The Iranian counter-proposal was not referred to in Mr. Eden's message of the 4th October 1952 since that message was sent with the sole purpose of enabling the Iranian Government to understand the joint proposals correctly, and in the hope that these proposals would be re-examined by the Iranian Government in the spirit in which they were intended. But since the Iranian Government now insist on putting forward their counter-proposal as the only basis for a settlement of the dispute, Her Majesty's Government feel obliged to state in some detail why this counter-proposal is unreasonable and unacceptable. Moreover, the terms in which the Iranian Government now purport to describe the joint proposals show that the joint proposals are still not understood and make it necessary for Her Majesty's Government once more to place their views and intentions on record.

The Iranian Government state in their counter-proposal that the question of claims by the Anglo-Iranian Oil Company and counterclaims by the Iranian Government may be referred to the International Court of Justice provided agreement is previously reached on four conditions. They now invite the Company to send representatives to Tehran within seven days to discuss these conditions while at the same time they demand the partial fulfilment of one of the conditions even before the Company's representatives are set out.

By the first and second of their conditions the Iranian Government seek to limit the question of claims by the Anglo-Iranian Oil Company to the value of the Company's property in Iran and expressly rule out all possibility of any claims on behalf of the Anglo-Iranian Oil Company relating to the period subsequent to the date of nationalisation. In the joint proposals Her Majesty's Government accepted the nationalisation of the Iranian oil industry as a fact but in return claim just compensation on behalf of the Anglo-Iranian Oil Company, the question of such compensation being referred in its entirety to the impartial judgment of the highest judicial tribunal in the world. The International Court should be asked to consider all claims and counter-claims of both parties without limitation and to have regard to the legal position existing immediately prior to nationalisation. Her Majesty's Government would when presenting claims on behalf of the Company, ask the Court to consider what compensation was due, not for the mere loss of the Company's installations in Iran, but for the unilateral termination of the 1933 Concession Agreement contrary to the explicit undertaking in the Agreement that it would not be so terminated. As was made clear in Mr. Eden's message of the 4th October Her Majesty's Government did not seek to revive the Concession Agreement in other respects. Naturally it would be for the Court to decide whether and to what extent a claim for compensation on the basis indicated above was justified and Her Majesty's Government would of course be bound by its decision. Her Majesty's Government could in no circumstances agree to debar themselves from raising such a claim before proceedings had even begun and as a condition for reference to the Court as the Iranian Government demand.

With regard to the third stipulation, Her Majesty's Government cannot admit that Iran has any claim against the Anglo-Iranian Oil Company in respect of Iran's failure to sell oil abroad. The Anglo-Iranian Oil Company have merely exercised their legal rights in regard to oil they regard as theirs, an attitude in which they have the full support of Her Majesty's Government, and they have declared their intention of defending those rights throughout the world.

The fourth stipulation refers to the payment in advance and on account of £49,000,000 erroneously stated to be shown in the Anglo-Iranian Oil Company's balance sheet for 1950 as "due to Iran". The Iranian Government now insist that of this sum £20,000,000 should be paid within seven days. The Supplemental Oil Agreement as is well known was intended to modify the 1933 Concession Agreement in such a way as to entitle the Iranian Government to considerable additional payments from the Company. There would have been an increase in tonnage royalty and in the annual payments in respect of Iranian taxation. In addition, by very considerably bringing forward the date of payment and by altering the method of assessing the amount of the payment in respect of the sum allocated to the general reserves, the Supplemental Agreement would have ensured to the Iranian Government a greater and more certain and more immediate benefit in respect of the sum so allocated. The additional financial benefit to the Iranian Government would have amounted to some £49,000,000 up to the end of 1951 solely by reason of the terms of the Supplemental Agreement and not by those of the 1933 Agreement. It was a condition of the Supplemental Agreement that the 1933 Agreement revised in this manner should remain in full force and effect. Iran rejected the Supplemental Agreement and wrongfully terminated the 1933 Agreement. It is therefore clear that the sums are in no sense due to the Iranian Government. Her Majesty's Government are thus being asked to agree, before a given date in the immediate future, that the Anglo-Iranian Oil Company should pay a fictitious debt of £49,000,000, nearly half of which is to be largely convertible into dollars (a demand not previously made by the Iranian Government) in return for the Company's abandoning its right to claim just compensation. Her Majesty's Government are not prepared to entertain this request.

As stated above the Iranian Government have in the first sentence of their note described the joint proposals in terms which suggest that misunderstandings still exist. Her Majesty's Government therefore wish to make it abundantly clear that

(i) Her Majesty's Government and the Anglo-Iranian Oil Company accept the nationalisation of the Iranian oil industry as a fact, but in return Her Majesty's Government claim just compensation on behalf of the Company

(ii) Her Majesty's Government consider that the question of compensation should be referred to the impartial adjudication of the International Court

(iii) Her Majesty's Government claim compensation on behalf of the Anglo-Iranian Oil Company for the unilateral termination of the 1933 Concession Agreement contrary to the explicit undertaking in the Agreement that it will not be so terminated

(iv) neither Her Majesty's Government nor the Anglo-Iranian Oil Company seek to revive the 1933 Concession Agreement in any other respect

(v) as soon as agreement is reached as to the terms on which the question of compensation is to be adjudicated the Anglo-Iranian Oil Company will be ready to open negotiations as indicated in the joint proposals. As already stated, neither Her Majesty's Government nor the Anglo-Iranian Oil Company insist on the Company's securing a monopoly of the purchase of Iranian oil

(vi) pending agreement as to the terms on which the question of compensation is to be adjudicated, Her Majesty's Government on their own behalf and on behalf of the Anglo-Iranian Oil Company reserve their full legal rights.

14th OCTOBER 1952.

No. 228

888.2553/10-1852: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET NIACT TEHRAN, October 18, 1952—noon.

1591. Eyes only Byroade.

1. I asked PriMin for appointment this morning to talk with him on personal basis. I told him I had come of my own volition without instructions from Washington. I was taking this action because I believed it my duty to do everything possible to prevent break of relations between Iran and UK, far-reaching consequences of which shld be known to him as well as to myself. I said it my understanding that my govt for several days had been making studies in hope of being able find some suggestion which might serve at last minute to bridge gap between Iran and UK. I had hoped that Iran wld not decide to break relations until US Govt had had opportunity to complete its studies. When I heard his speech on Oct 16[2] I had at first assumed that nothing more cld be done to prevent rupture. Since, however, step representing actual break had not as yet been taken I decided this morning to make one more effort to forestall development which might do tremendous harm to Iran. I asked PriMin if it wld not be possible for him to delay breaking for several days so that Washington might complete studies which it had undertaken.

2. PriMin replied that he had intended to give note to Middleton this afternoon which wld terminate dipl relations but in view of what I had said he wld postpone doing so for 48 hours. I said it wld be extremely difficult accomplish much over weekend and asked if it was absolutely necessary for him to make break on Monday, Oct 20. PriMin finally agreed that he wld take no action before

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[1] Repeated to London for the Ambassador and to the U.S. Mission at the United Nations in New York for the Secretary of State. (888.2553/10-1852)

[2] On Oct. 16, Mosadeq made a radio address in which he announced that the continuance of diplomatic relations between Iran and the United Kingdom was futile in view of the unfriendly attitude adopted by the British Government in its Note of Oct. 14. Mosadeq failed, however, to outline any steps to implement his decision to sever relations.

Wednesday, Oct 22, although failure to do so might cause some embarrassment between him and various colleagues. I told PriMin that things had gone so far that it might not be possible for me to offer him any suggestions at all. Nevertheless, it seemed to me worthwhile postponing taking final step re break if the slightest hope existed. I added that since my visit was of personal character I wld prefer that fact that I had suggested postponement not be made public. PriMin agreed and said that if there shld be any question re purpose my visit he wld state that I had sought from him informally certain clarifications re his radio statement of Oct 16. Emb is giving same answer to press. This answer is not entirely inaccurate since I did discuss several points contained in his speech.

3. In view of above, I hope that Dept and Emb London with Nitze's help will be able to work out some kind formula which might be presentable both to UK and Iran. I also hope that neither Washington or London will object to this last minute intervention on my part. It was extremely difficult at this distance always to obtain instructions in advance and, therefore, at times I consider that it is in our natl interest to take certain actions without them.[3]

4. Middleton informed.

HENDERSON

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[3] The Department, in telegram 961 to Tehran, Oct. 18, thanked Henderson for his initiative. (888.2553/10-1852)

No. 229

888.2553/10-2052: Telegram

The Ambassador in the United Kingdom (Gifford) to the Department of State[1]

TOP SECRET PRIORITY LONDON, October 20, 1952—5 p. m.

2288. Eyes only Bruce and Byroade. At outset of first mtg Oct 19 with Strang and others of Brit team,[2] Strang said that they wld like to get immed into certain specific probs such as the adequacy of the amount of compensation, the effect upon other producing countries of the absorption of the quantities of oil from Iran contemplated by our proposal, management probs and questions of price.

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[1] Repeated to Tehran eyes only for Henderson and to the U.S. Mission at the United Nations in New York for the Secretary of State. (888.2553/10-2052)

[2] A report on this meeting was sent to the Department in telegram 2281 from London, Oct. 19. (888.2553/10-1952)

Nitze said that we had come over with no specific plan, that we had been working hard to develop tools which might be useful in working out a solution to the oil controversy, that we wished to discuss the gen concepts underlining a solution and that he wld like first to get from the Brit any ideas that they might have as to how the tools that we had developed cld be employed in arriving at a settlement.

The Brit had no ideas of their own to put forward and reverted to their specific questions. There followed first a discussion of the adequacy of the compensation. Butler said that the Brit figured 30 mil tons of oil and products wld represent a value of about approx 5 pounds per ton or $420 mils. Nitze indicated that we thought the replacements cost new of the facilities might be in excess of such a figure, that the orig cost to AIOC was certainly less than such a figure, that the depreciated value was far less and pointed out that AIOC had had the benefit of the depreciation reserves accrued in the past. He went on to say that in our view $420 mils of compensation wld in fact compensate the fair value of assets taken and wld include some allowance for unilateral rupture of the contract. The Iranians, on the other hand, cld well argue that $420 mils was less than the replacement cost new of the physical assets. Flett said the Iranians had been seeking pounds 350 mils of insurance against the former AIOC facilities in Iran. Rowan argued that any figure such as we contemplated might have an adverse effect on other concessions and reverted to impartial arbitration as being the preferable method from their standpoint.

There followed some discussion of the prospect of Iran agreeing to impartial arbitration on any basis acceptable to the UK. It seemed to be gen agreed that this was unlikely.

There followed a discussion of the impact on other producing countries of a restoration of Iranian prod in the quantities contemplated by our proposal. Nitze said we were quite aware that a real prob was involved. However, the rate of increase in East Hemisphere requirements had been approx 700,000 barrels per day in recent years. (Butler questioned this.) This rate might decline somewhat in the future, but over a period of two or three years it shld be possible to absorb Iranian prod without too much difficulty. In the meantime, Kuwait, Saudi Arabian and Iraqi production was probably abnormally high and some reduction in these rates might make possible the absorption of restored Iranian output. The Brit noted that under the concession terms Iraq prod had to be increased by certain amounts each year. There followed a discussion of the quantities to be purchased contemplated by our proposals. Nitze said that Henderson had indicated that a reduction of the 25 mil ton figure to 15 or 20 mil tons might make the proposals more acceptable to the Iranians. Brit team indicated that smaller quantities might also be easier from their standpoint. Butler indicated that he had rather come around to the view that it might be best from the UK's point of view to get compensation and not get involved in the probs of helping Iran market the rest of its prod.

There followed a discussion of management. Nitze said we thought this was a difficult prob, but not insuperable. He asked whether the Brit wld have any objection to an Amer firm such as Bechtel-McCone, Kellex or the Brown firms, assisting the Iranians in the operation of the properties in Iran. Rowan said they wld have no objection provided there had been a settlement of the compensation issue. Nitze said that the coordination of distributing and refining operations might be somewhat easier if the distributing company were a Dutch company rather than a subsidiary of AIOC. He said that he understood that The Royal Dutch Shell was handled as a Brit enterprise in the UK Treas operations. Rowan confirmed that this was true until 1956 when it comes up for renegotiation. Rowan said the Treas had serious probs with the fon exchange difficulties that cld be anticipated were Iranian prod to be restored in such a way as to move substantial quantities into sterling areas. He said that prior to nationalization the Treas had had to convert considerable quantities of sterling earnings by Iran into dols. The Bank Melli had cooperated in holding Iranian dol purchases to a minimum, but nevertheless, substantial conversions had had to be made. Similar probs wld arise and under more difficult circumstances were Iran again to become a substantial earner of sterling.

There followed a discussion of the possible advance of up to $100 mils against an oil purchase contract by DMPA. Nitze said that we hoped the full $100 mils wld not have to be used and that AIOC wld be able to participate in either making in advance or in making a contribution as part of the settlement of compensation and claims.

At this point Strang suggested that AIOC reps and Levy be invited to join the mtg to discuss prices; Nitze suggested that there be a prior discussion of Mr. Henderson's initiative in Tehran and the tactics which might be followed. He then outlined the proposal described in London's tel 2281 of Oct 19.[3] A report on the subsequent mtg with AIOC reps will follow.

GIFFORD

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[3] Not printed. (888.2553/10-1952) The proposal dealt with, among other things, the portion of compensation for the company and the time period and quantities of oil to be covered in a purchasing agreement.

No. 230

888.2553/10–2052: Telegram

The Ambassador in the United Kingdom (Gifford) to the Department of State[1]

TOP SECRET LONDON, October 20, 1952—7 p. m.

2296. Re Embtel 2288.[2] At subsequent meeting at which AIOC reps and Levy were present discussion began consideration paragraph 2 of original proposal as communicated to Brit last week (Deptel 2563 Oct 10).[3] It was agreed first sentence worked out to approx $1.00 per barrel for crude on present US quotations. Nitze explained second sentence necessary because certain products such as fuel oil cld not be appropriately handled under formula contained in first sentence. The AIOC representatives had interpreted second sentence to mean any excess up to their full sales realization wld have to be turned over to Iran and AIOC wld therefore receive no profit in excess of 10 per cent of US quotations. Nitze explained formula had been devised on assumption distributing company management wld be independent of AIOC and wld be in position negotiate best possible terms with AIOC and others, but that such terms wld undoubtedly have to be at lower prices than AIOC's full sales realization if AIOC was to be expected to absorb any substantial quantities.

Nitze went on to say that in view of fact that distributing company might be AIOC subsidiary, we had attempted work out further price formula which might be applicable under such circumstances. Nitze then outlined price formula which Dept has under heading "formula suggested by Walter Levy" and which provides for a base crude oil price calculation on US East Coast less duty, less freight, less 15 per cent ($1.09 on present prices) and refining through—put charge of $5.00 a ton.

There was extended discussion as to how this wld work out in practice. At this point Brit given copy of draft proposal incorporating Levy formula and worked out so that compensation handled as part of distribution contract. Copy of this proposal is fol tel.

Brit wanted to study this over night. From such discussion as followed it appeared Brit felt themselves on horns of dilemma. On one hand this wld like to get compensation and not be involved in commercial or foreign exchange problems involved in marketing

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[1] Repeated to Tehran and to the U.S. Mission at the United Nations in New York for the Secretary of State. (888.2553/10–2052)

[2] *Supra.*

[3] Printed as telegram 889 to Tehran, Document 223.

Iranian oil. On other hand, they were concerned with problem of what wld happen to Iranian oil if compensation question were cleared up and no legal bar to others buying Iranian oil. Nitze pointed out these problems were inherent in any settlement of Iranian controversy and wld arise immediately if Iran were to accept arbitration by ICJ as contemplated by our joint proposals. He emphasized seriousness of consequences of no solution and of our desire to work thru with Brit best way of arriving at solution.

GIFFORD

No. 231

888.2553/10-2152: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET NIACT TEHRAN, October 21, 1952—6 p. m.

1633. Eyes only Byroade.

1. I called on Prime Minister this afternoon 4 p. m. and talked to him along lines suggested Deptel 977, October 20.[2] Mosadeq was courteous and apparently unruffled. He said he deeply regretted that US Government had not been able, in time allotted, to develop any ideas which it could put forward in form of proposals. He was not, however, particularly surprised since he appreciated fact that it was not easy to find formula which could give promise of bridging gap between UK and Iran. He would always be ready to receive suggestions which in opinion of US would be acceptable to both parties.

2. When I said that in opinion of US Government major problems of oil dispute seemed to be settled and there now remain only questions of compensation and commercial arrangements for sale of Iranian oil which should not prove insuperable obstacles to settlement, he remarked that although some progress had been made in matter of principle there were economic aspects of problem just as important as those of principle. For instance, Iran needed funds immediately and any settlement of oil dispute which did not provide them would yield no benefit to Iran.

3. When I told him that in opinion of US Government break in relations with UK would not contribute to settlement of Iran's problems he said that he did not like to make break; he would prefer to continue relations; but in face of internal difficulties which country is sure to encounter in absence of oil settlement and

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[1] Repeated to London eyes only for Gifford and Nitze.

[2] Not printed. (888.2553/10-2052)

receipt of needed funds from AIOC was too dangerous to permit British representatives to continue to remain in Iran. Basing himself on past experience he could not believe that those representatives would not stimulate opposition by force to Iranian Government. I have argued this point with him so many times that I considered it useless to endeavor persuade him that his fears were groundless. I merely said that I deeply regretted that he continued entertain them.

4. As I was leaving he said he would like to ask me question; was there any reason why he should not break relations this evening rather than wait until tomorrow.[3] I told him that if he wanted my advice it would be not to break them at all, but in no event should he break them this evening. There did not seem to me to be anything to be gained by taking action on spur of moment.

Henderson

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[3] The Government of Iran severed relations with the United Kingdom the following day, Oct. 22. The text of the letter sent from the Iranian Foreign Office to the British Embassy in Tehran was transmitted to the Department in telegram 1679 from Tehran, Oct. 24 (888.2553/10-2452)

No. 232

888.2553/10-2452: Telegram

The Ambassador in the United Kingdom (Gifford) to the Department of State[1]

TOP SECRET PRIORITY LONDON, October 24, 1952—7 p. m.

2422. Eyes only Bruce and Byroade. Subsequent to despatch Embtel 2388, Oct 23,[2] British yesterday requested meeting with us which took place this morning.[3] Participants were same as second paragraph Embtel 2281, Oct 19,[4] with exception Rowan, company officials and Levy who were not present.

Strang expressed appreciation for exchange of views earlier in week which had been most helpful and given British much to think about. UK had examined problem more closely in light those discussions and was now in position give us its further views. Broad position is that US and UK have gone hand in hand to Mossadeq with joint proposals which we had both agreed were fair, but were not well received by him. He had responded with totally unacceptable counterproposals and we had then tried to remove the misunderstandings under which he appeared to be laboring. His response to this sincere effort on our part has been to deliver two slaps: (1) he rejected the proposals; and (2) when it was apparent he could not get what he wanted, he broke relations. As general conception, UK feels there is some unwisdom in moving so quickly from joint proposals. To go back to Mossadeq now and hint that new ones involving different concepts might be forthcoming would weaken UK and perhaps US position in ME, at same time encouraging Iran and other states to indulge in same kind blackmail tactics.

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[1] Repeated to Tehran eyes only for Henderson.

[2] In telegram 2388 the Embassy in London reported that the British were continuing their consideration of the problems involved in reaching an oil settlement before carrying their conversations forward with Nitze, and that Eden was pursuing the matter with his colleagues. (888.2553/10-2352)

[3] The minutes of this meeting are in GTI files, lot 57 D 155, "Oil—1952".

[4] Not printed. (888.2553/10-1952)

Strang said foregoing is not intended to indicate UK's mind is closed to alternative approaches to problem, but simply to indicate that it does not believe it should move towards them now. An alternative is to examine joint proposals again and to see whether it might not be possible to exploit essential elements in them in order to enhance their acceptability to Iran. At beginning exchange of views earlier in week, Nitze had asked whether UK had any suggestions as to how we might proceed. As result recent study, UK able advance following ideas for consideration.

British then proceeded to separate problem of settlement into two phases:

1. First phase would be Iranian agreement to submit question of compensation to impartial arbitration.
2. Immediately Iranians agree to arbitration, problem wld enter phase 2 which wld consist of making arrangements to move Iran oil. In studying this phase of problem, UK has accepted US view that there must be quick resumption of flow of Iran oil on large scale if we are to strengthen Iran against communism and avoid political consequences which continued stalemate might involve. Her Majesty's Government feels that once Iranians agree to arbitration, company would also have strong interest in cooperating to get Iranian economy back on its feet by buying oil. They thought company would recognize that unless oil moved, there was little prospect of its obtaining compensation which arbitral body might award. Even if AIOC did not see problem that way, Her Majesty's Government could not allow company to adopt dog-in-manger attitude toward getting Iranian oil back in world picture. There are different means of doing this. AIOC might undertake task alone, or international consortium consisting of AIOC and American interests could be formed to do job. UK recognize that this might pose difficulties from point of view US anti-trust laws. If neither of these practicable, company, with which matter not yet discussed, might agree relinquish its interest and open field for American companies to take over task. With goodwill of AIOC and Her Majesty's Government, British thought it wld be possible to allay criticisms that American interests were taking advantage of Iranian

situation to British detriment. They thought Her Majesty's Government would go out of its way to deny that this was case and to affirm that action was being taken in greater world interests. It would be essential for UK and US to work together in making this clear. Further possibility, which British considered least desirable, would be for Iran to dispose of its own oil as best it could without outside help.

Reverting to phase 1, British emphasized that Iran acceptance of arbitration would be "open sesame" to phase 2. UK recognized that Iran apprehensive regarding placing fate of oil controversy in hands of arbitral tribunal. UK recognized that there were widespread fear in Iran that arbitral award might be so large as to cripple Iran economy. For UK's part, it could not even hint that it would not put forward its maximum claims. Nevertheless, British felt arbitral body would, in determining award, be bound to take into consideration Iran's ability to pay. There were three possible bases on which award might be determined.

(1) Bare physical value of assets;
(2) Market value; and
(3) Loss sustained by company by virtue of nationalization. British could not predict, of course, what Court might award, but they thought it likely it would be somewhere between 1 and 3, which should not constitute award of such magnitude as to cripple Iran. UK had no fixed ideas re form arbitration might take. It preferred ICJ, but did not rule out possibility of setting up other arbitral body. It felt it essential, however, to cling to principle of arbitration, which is both reasonable and honorable means of disposing of controversial problem of this kind.

In ensuing discussion, Nitze said we had thoroughly appreciated why UK considered it important to stand on arbitration as principle. We too saw great advantages in it. We had, however, been worried by time element involved. In case of Mexico, if he remembered correctly, it took seven years before body could be set up to determine value of properties. We had foreseen difficulty in persuading Iran accept arbitration all claims and counter-claims, not only because of Mosadeq himself, but because of pressure Iranian public opinion on Mosadeq. British said in reply that all Mosadeq had to do was to agree to an arbitral procedure and that immediately this was done, we cld then pass on to phase two. British saw advantage in working out immediately kind of offer which might be made to Iran in phase two on theory that this wld act as inducement to Iran agree to phase one. They despaired of reaching agreement with Mosadeq if compensation determined by negotiation combining phases one and two. In such eventuality, there wld undoubtedly be all kinds of haggling re lump sum compensation which wld exacerbate prospects for negotiations re price, quantities, etc.

Nitze said that we had understood that it wld be difficult for UK to suggest lump sum settlement to Mosadeq. There were also disadvantages in UK taking initiative and it had therefore occurred to him that "suitable person" such as Gutt might be used at this phase of problem with less danger of prejudicing UK position. He said that, in view time factor involved, this might be worthy of exploration. British maintained that one difficulty with lump sum settlement is that in order to commend itself to Mosadeq, some initial figure must be set as basis for negotiation. Mosadeq wld haggle and attempt whittle this down and there was great danger that it wld wind up by being very small sum. Once principle had been established, it wld be hard break away from lump sum determination. "Suitable person" might, however, be useful in phase two of British suggestions as medium for passing on ideas re price and quantity.

Summing up, Nitze said he wanted be quite sure he understood British suggestions. He understood that in phase one, Iranians wld agree submit question of compensation to arbitration. Immediate agreement reached on this point, problem wld move into phase two. At this point, discussion wld be opened with Iranians by AIOC, international consortium, American Company, or any other group. They wld offer to buy X amount of oil at X price for X years. Nitze then asked if these terms not satisfactory to Iran, wld Iran be free to accept better offer from, say German firm.

British confirmed Iran wld be free to take best offer which it cld get. They added that phase two shld, however, be broken down in two parts: first wld be period while arbitration was going on. During this time portion of proceeds from sale of oil shld be placed in escrow to be paid to AIOC as compensation when award determined. British noted this already provided for in nationalization act. Once amount of arbitration determined, then there might be different arrangement. In any event, negotiations re sale of oil in both parts of phase two wld be transactions on strictly commercial lines.

Throughout discussion British emphasized that most promising new element in whole picture was possibility of US using DMPA funds to further a settlement. They thought this opened up number of prospects which wld promote settlement. In response their question, Nitze said he saw no reason why DMPA funds cld not be used under various alternatives to help get Iranian settlement.

On timing, British indicated they wld not want to rush to Mosadeq with new proposals. They thought some time shld be allowed to pass to assess effect of break in relations on Iranian political picture. Also they wld want consult Middleton upon his return in about ten days.

Nitze said he found foregoing suggestions and clarification most helpful and most interesting. He thought they required careful consideration. In discussion which ensued, it was decided that best forward timing wld be for Nitze to return to US tonight and to discuss these ideas in Washington. Meanwhile, British wld attempt make suggestions more precise and discuss them with company. It might be possible within about two weeks time to clarify US and UK thinking, at which time mtgs might be resumed to see what further course was indicated.[5]

Foregoing shld not be looked on as firm proposals or ideas but rather in nature thoughts advanced for discussion. We are sure Dept and Tehran will appreciate any leak of these discussions might be fatal.

GIFFORD

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[5] On Oct. 28 the Embassy in London reported that it had informed the Foreign Office, as requested by Nitze prior to his departure for Washington, that it was ready to explore further with the British the problems surrounding phase two of a possible oil settlement. The Foreign Office responded that this was a useful procedure, but it first had to discuss the matter further with officials of the Anglo-Iranian Oil Company. The Embassy further reported that on Oct. 28, Victor Butler of the Ministry for Fuel and Power called to say that he was experiencing difficulty in discussions with AIOC representatives regarding phase two, as the company was concerned about the extent of the commitments which it would have to assume. (Telegram 2471; 888.2553/10–2852)

No. 233

788.00/10–3152: Telegram

The Acting Secretary of State to the Embassy in Iran[1]

SECRET PRIORITY WASHINGTON, October 31, 1952—7:34 p. m.

1081. Dept greatly appreciates ur thoughtful tel 1765 Oct 30[2] and finds it is in essential agreement with most of conclusions contained therein. However, from Emb and other reports, Dept has been inclined to give emphasis to fol factors:

1. Nationalist and Tudeh programs parallel in Iran but crucial difference is that nationalists reject Sov domination. It has been reported as evidence Natl Front Govt opposition Tudeh, (a) Cabinet and Majlis still clear of commies although admittedly there is thin

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[1] Repeated to London and pouched to Moscow, Ankara, Baghdad, Kabul, Karachi, Cairo, Beirut, Damascus, Amman, Tel Aviv, Jidda, Dhahran, Rome for Unger, Isfahan, Meshed, and Tabriz. Drafted by Stutesman and Richards and approved by Byroade.

[2] Telegram 1765 conveyed a general estimate of the situation in Iran. (641.88/10–3052)

line between some radical leftists in Natl movement and Commies, (b) Tudeh Party still illegal and Dept unaware any Govt move or intention in direction legalizing party, (c) imposition martial law Tehran and environs, (d) laws recently decreed calling for criminal prosecution persons carrying concealed weapons and persons creating labor and other civil commotion, (e) Natl Front deputies increasingly outspoken in accusing Tudeh Party of Sov domination, (f) Anti-Shah demonstrators arrested Oct 26 reportedly to be exiled Persian Gulf islands, (g) Oct 29 martial law authorities suppressed all Tudeh newspapers.

2. Dept has considered if Mosadeq shld disappear from polit scene, his successor wld probably be Kashani or his puppet who likely wld be willing and able act ruthlessly, probably more ruthlessly than Mosadeq in maintaining position. Trend polit developments Iran seems to be moving direction dictatorship of natl socialist type which in Iran unlikely to be efficient, reasonable, or based on well-developed program, but allows basis for expectation that ruthlessness toward opposition will be characteristic and Govt will be in essential conflict with communism.

3. Altho para 4 urtel points out sources opposition to Natl Front, it does not appear take account of support which Kashani and Mosadeq reportedly draw from members landowner and merchant group and likelihood that small merchant class will continue support nationalist dictatorship.

4. Dept has been led to conclusion from previous reports that land reform apparently being accepted many areas Iran and perhaps more important for immediate future apathy majority peasants still essentially unchanged.

5. While Kashani presumably wld cooperate with Tudeh if he considers it in his immediate polit interest, is there not possibility that he can maintain his present and potential position without Tudeh assistance?

6. So far tribes, except for some Kurds, reportedly support Natl Front Govt although undoubtedly their major motive is self-interest.

7. Factor of major importance Iran's historical past has been balance of fon powers in Iran. Altho nationalist leaders undoubtedly personally antagonistic any fon influence, they must remain aware importance maintaining some relation with West to counterbalance Sov pressure. Therefore altho Dept foresees that operations US mil missions and Pt Four may be increasingly hampered and US may receive blame for internal Iran problems, it seems not improbable that Kashani may be influenced, particularly if he has responsibility in govt, to consider carefully any move to sever ties with West. This factor is strengthened by additional pt made urtel that Irans have basic hope that US will in some manner provide polit support and econ assistance.

Having these factors in mind, fol are conclusions derived here from info recd:

A. Barring unforeseen developments such as active Sov intervention Natl Front Govt (if not Mosadeq at least some other leader

Natl Front) will remain in power during 1953 and will actively prevent Commies from obtaining any substantial control Iran affairs.

B. Barring serious crop failure or unfavorable export market, Iran economy can provide sufficient funds for Govt pay mil forces and civil servants and purchase essential imports altho no oil sold and no fon aid recd during 1953 beyond that presently anticipated.

C. Trend developments favor Commies and will increasingly undermine Western influence. Basic US problem vis-à-vis Iran is how to support non-Commie Govt so that it can remain in control of Iran affairs.

Dept wld appreciate ur comments.

Bruce

No. 234

888.2553/10-2452

The Secretary of State to the Secretary of Defense (Lovett)[1]

TOP SECRET [Washington,] November 4, 1952.

My Dear Mr. Secretary: There is much in your letter to me of October 24[2] on Iran with which, as you already know, I am in full agreement. In order for us to proceed on a constructive line with some degree of assurance, I think we need considerably greater precision on a number of the concrete and difficult problems involved.

For sometime it has been clear and we have been acting on the assumption that if Iran is to be saved the initiative and, in the last analysis, the responsibility would have to come from us rather than from the British. This is even clearer now that Iran has broken diplomatic relations with the United Kingdom. There remains, however, the point that the United Kingdom is the most important element of strength in the Western alliance outside of the United States.

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[1] Drafted by Nitze and cleared in substance with Matthews, Byroade, Bonbright, and Linder.

[2] In his letter of Oct. 24, Lovett stated his conviction that, given the deteriorating situation in Iran, the United States had to take immediate action to prevent Iran's loss to communism. He believed British policy had failed; that the United States could no longer rely on British initiative; and that events had, therefore, forced primary responsibility for Iran on the United States. He recommended prompt American political and economic action to bolster the Iranian Government and to revive Iran's oil industry. Such actions, he said, to save Iran appeared painful, costly, and dangerous, but, he warned, they would require only a small fraction of the money, material, manpower and anguish that would have to be expended if it were necessary to hold Iran by military action to save such a strategically placed nation from communism. Moreover, he urged action even if it damaged U.S. close relations with the United Kingdom. (888.2553/10-2452)

The objective of our policy must be to save Iran without unnecessarily damaging our relations with the United Kingdom. I think you seriously underestimate the depth of feeling throughout Great Britain over this question. In their view the British have made very real concessions to Mossadeq and have come a long way to meet him in the past year. They believe that in return Mossadeq has become more and more unreasonable. In short, they believe that we have pushed them hard and far without result and this has left an undercurrent of resentment. I believe that unilateral and uncoordinated action on our part will not lead to British acceptance nor to "a sense of relief to know that their heavy burdens in the general area will henceforth be shared." On the contrary, I think it could do deep and lasting harm to our alliance, and would also have repercussions with respect to the French, Turks and other partners in NATO. This does not mean that we should accept a United Kingdom veto of any action which the United States considers it must take to save Iran; it does mean that we should so conduct ourselves as to take proper account of legitimate United Kingdom interests and should act only after full consultation with the United Kingdom.

For the past nineteen months we have pressed the British to make a variety of concessions to the Iranians. We have done this not because we regarded the British position as necessarily unreasonable but rather because we have been more sensitive than they to the wider dangers inherent in the Iranian situation. You will have seen the cables covering our recent discussions in London in which there was evidence of a further relaxation in the British position. We believe these conversations opened up a number of possibilities, depending upon what we ourselves are prepared to do.

One of the concrete problems in securing a resumption of the flow of Iranian oil is to determine whom it is we can call on, and who is able in fact, to move Iranian oil in the volume which is required to save Iran. As you have indicated, the independents are not in a position to give us any real help. You were present at our recent meeting with the Attorney General and understand the problem presented in asking for the assistance of the major oil companies in moving Iran's oil.[3] The laws of the United States

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[3] At a meeting on Oct. 8 with Attorney General McGranery, Secretary of the Treasury Snyder, Secretary of Defense Lovett, and Chairman of the Joint Chiefs of Staff Bradley, Secretary Acheson asked if it would be legally possible, if necessary, for the major American oil companies to ship Iranian oil in their tankers if the Anglo-Iranian Oil Company refused in order to make money available to Mosadeq from the sale of such oil and thereby make him amenable to concluding a settlement of the oil dispute. The Attorney General believed it would be most difficult to work out such a program involving the major companies and at the same time

Continued

must, of course, be upheld. We believe that legislative authority exists for a program which would be helpful in this difficult situation. We shall need your assistance and that of the Attorney General in developing these ideas further.

Another of the concrete problems is that of providing immediate economic assistance to Iran in adequate volume. You will recall the considerations which were involved in determining if we could, in the joint proposals, offer to make as much as $10 million in grant assistance available to Iran and the difficulties which were foreseen in even suggesting that any further sums might be forthcoming. I do not believe the problem of finding the necessary funds is unsolvable, but again we shall need your assistance if a workable program is to be developed.

In your letter you say that events have forced primary responsibility for Iran on the United States regardless of our wishes or those of the British. It has seemed to us for sometime that an even broader problem faces us. This broader problem relates to the degree to which events may force us to assume responsibility in the wider areas of the Middle East and our capabilities for meeting this responsibility. Our policy should take into account the strength as well as the weakness of the British position in the area. Indeed, we believe that it is only by correlating our efforts with the British that the limited resources available to us for the area can be employed with any lasting effectiveness in developing stability and a capability of defense in the Middle East.

If we are to assume added responsibilities with something better than guesswork as a basis, we should have an estimate of the military force requirements involved and an estimate of our capabilities in conjunction with our Allies in meeting these requirements. We have been trying to obtain such estimates for over a year. The State Department having been unable to obtain such estimates through its normal liaison channels with the Pentagon, we wrote you on August 15 suggesting that you request the Joint Chiefs of Staff to undertake a preliminary study of the essential requirements.[4] We were originally told that we could expect at least a ten-

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maintain the U.S. Government's antitrust action against them. Such a course of action, he thought, would cause the collapse of the antitrust suit. Secretary Acheson then asked if it was possible to form a company which would include American oil firms presently transacting no business in Iran and then have this new company sell the oil to AIOC. Attorney General McGranery and his assistant, Leonard Emmerglick, maintained that such an arrangement would constitute a cartel, which was also in violation of the American antitrust law. (888.2553/10-852) For documentation on the antitrust action against petroleum companies, see vol. I, Part 2, pp. 1259 ff.

[4] For text, see vol. IX, Part 1, p. 266.

tative answer within thirty days. In your letter of October 28, you tell me that nothing can be expected before early in 1953.[5] You say the question is an extremely complex one and decisions in regard to it will have a decided impact on our strategic objectives elsewhere. It is precisely because of this difficulty that the problem in Iran does not lend itself to any facile solution. We have many interests that must be protected, and the Defense Department could be most helpful if, when supporting the position that the United States may well have to assume potentially very great additional responsibilities in the Middle East, it could give us an indication of the military requirements and capabilities which would be involved so that our planning can go forward on a sounder basis.

I shall be very glad indeed to continue to explore these matters with you recognizing their urgency and importance.[6]

Sincerely yours,

DEAN ACHESON

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[5] See *ibid.*, p. 267, footnote 3.

[6] Secretary of Defense Lovett replied on Nov. 12 that he hoped Secretary Acheson had not misunderstood his attitude toward the need for unilateral American action in Iran. He continued to believe that prompt American action with or without British approval was necessary. However, he had never contemplated uncoordinated action in the sense of failing to consult with the British or to advise them of American intentions. (888.2553/11-1252)

No. 235

788.00/11-552: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET PRIORITY TEHRAN, November 5, 1952—5 p. m.

1850. 1. We disturbed by fact we apparently have not given Dept full info background on basis of which estimate Iranian situation prepared with concurrence all sections Emb (Deptel 1081 Oct 31). We therefore deem it advisable comment upon various points raised in reftel in hope this may aid Dept's thinking on actual situation Iran.

2. Re factor one discussion natlist rejection Sov domination:

a) Mosadeq at present unchallenged in auth with Kashani for time being indefinite secondary position has succeeded in taking under his control or eliminating, at least to considerable extent, several pol segments of influence which had been potential or active opponents prior to July, as for example Shah, armed forces and Senate. This personal accretion of power might result in increased pol instability in event Mosadeq shld disappear from pol scene. Mosadeq has capabilities to move in decisive way against Tudeh so that its org and activities might be temporarily crippled and driven deeper underground. However he has thus far not done so. We think he does not want USSR to receive impression he has irrevocably closed all doors to *rapprochement* nor does he wish Tudeh to go all out against his govt at this time. In our opinion Mosadeq not likely take decisive action against Tudeh unless he concludes appeasement will no longer restrain it or unless he is convinced aid will be forthcoming from West of sufficiently substantial character to permit him to revitalize state admin and to give real incentive to Iranian people.

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[1] Transmitted in three sections; repeated to London and pouched to Moscow, Ankara, Baghdad, Kabul, Karachi, Cairo, Beirut, Damascus, Amman, Tel Aviv, Jidda, Dhahran, Rome, Isfahan, Meshed, and Tabriz.

b) During last twelve months there has been a marked deterioration of forces making for steady admin and for stability country. This deterioration has caused Emb to call to Dept's attention on various occasions danger to entire free world inherent in this situation. During this period there has also been strengthening of spirit of extremism in natl front as it has encountered series of frustrations. This extremism has been reflected in series pol acts, culminating in break in relations with UK and abolition Senate. This irresponsible extremism, expressions of which frequently serve Tudeh purposes, combined with intrigues and personal opportunism of many front leaders, causes us to believe that we should not take it for granted that Communists can not capture national movement. At this time when as result UK departure from Iran, US responsibilities here become more heavy, Iran is in custody of a national front govt which has announced its intention to maintain Iranian independence and "neutrality" but which is at same time undermining the very institutions necessary for carrying out this intention. We are not attempting to predict extent of trend or to suggest that unexpected developments may not change picture. It seems to us just now however, that forces in Iran working in behalf Sov objectives are stronger than those working for West.

c) We have been impressed by manifold ways in which Tudeh influence, altho not open is being exerted on govt. It becoming steadily more clear that PM is receiving considerable amount Tudeh slanted advice. [garble] Kashani's rels and those his entourage with Tudeh have already been reported. . . . Altho Cab has no known Tudeh mins some of its mbrs reputedly have Tudeh sympathies. Among them are Justice Min and his Under Secty, as well as Under Secty Labor and Interior. Min Educ not above suspicion as Tudeh tools. This info shld already be in Dept's bio files or on way there. As stated in original estimate flexibility of principle is characteristic of many Iranian bureaucrats and politicians. This opportunism makes them at least potentially vulnerable to Tudeh infiltration. As we pointed out infiltration this kind might result in Communists creeping almost imperceptibly into power.

d) In our calculations reftel factor 1(b) and (c) likely to be only slight if any impediment to Tudeh Party organizational work and other activities. Party thru stooges being permitted operate so that legalization at propitious future time cld be formality. Our observations show martial law thus far not seriously affecting Tudeh organizational activities altho it does for moment keep demonstrations within bounds. Recent acts of govt were of course taken into consideration at time estimate. During past week they have been subjected to strong criticism and may be emasculated by extremists in Natl Front itself as reported Embdes 343 Nov 1 and Embtel 1810 Nov 3.[2] These reports show that Kashani and Baghai against security and press laws that all but small fraction Tudeh demonstrators thus far have been released while remainder are awaiting decision re security law and that Tudeh papers are again reappearing. Estimate called attn to fact certain Front elements apparently becoming more aware of Tudeh menace and this increased awareness may in time result in creation effective counter force. On other hand some anti-Communists like Baghai balk at strong measures and at present at least no organized effective action against Tudeh in sight.

Re factor two possible stronger successor govt to Mosadeq regime on dictatorial, anti-Communist pattern:

We believe that if Mosadeq shld leave PNJ arena in near future chances are he wld be replaced by Kashani sponsored candidate of weaker character. Successor this kind not likely command support upon as wide scale as Mosadeq. Furthermore even if such successor wld desire take strong measures he wld be handicapped by weakened party and govt apparatus. In Embtel 1285, Sept 26,[3] we pointed out characteristics of possible future Kashani supported govt which affirmed this view.

Re factor three Nationalist support from landowner and merchant classes:

Landowners unhappy at prospect Front's announced ideas of reform measures aimed at curtailing their traditional privileges. Lacking leadership they reluctantly go along with present govt. Merchants criticism of Mosadeq handling econ affairs also arise as Emb reported altho here too they for moment have nowhere else to go. Kashani influence altho somewhat diminished remains strong in Bazaars in leading towns and such elements will probably follow his pol lead at least temporarily. Simultaneously these classes well aware personal differences within Front cliques. Shld Front schism arise, we consider pol issues will not be presented to them as clear-cut Nationalist vs Tudeh decision but as choice of several personal leaders to whom they may adhere for maximum individual advantage. With these classes split and uncertain Tudeh can thus neutralize them.

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[2] Neither printed (788.00/11-152 and 11-352, respectively).

[3] Not printed. (888.2553/9-2652)

Re factor four acceptance land reform by peasants:

Emb without basis to support Dept's assumption that land reform being implemented in most Iran without diff. In Embtel 1423 Oct 7, 898 Aug 28 and 571 Aug 7, and Embdesp on land reform including monthly econ report No 190 Sept 9 contrary reports were submitted.[4] These were to effect disturbances cld not be pinpointed to any one region although more marked in Azerbaijan. Recent Tabriz cables forwarded by Emb support this. Similarly, periodic Embtels giving est Tudeh activities (such as Embtel 1407 Oct 7)[5] show party's efforts meeting success some areas among peasants.

Re factor 5, Kashani's need for accepting Tudeh assistance:

In considering Kashani's position we view situation in light comment on factor 2 above, wherein possible Kashani successor regime to Mosadeq wld be weaker than present govt. Such regime with Kashani backing may in its weakness turn to Tudeh for support.

Re factor 6, attitude tribes:

Con Tabriz has reported dissatisfaction among all Kurds widespread toward present govt. Other Emb info from travelers of same tenor. We wld say outward position other tribal elements ranges from passivity to restlessness toward regime, with Qashqais for own personal reasons currently giving it support. Slackening of govt auth in tribal areas especially marked in Shiraz area, as indicated by US official travelers (see des 217 Sept 19 and 331 Oct 30).[6] [Source] has reported growth pol intrigues among southern tribes.

Re factor 7, importance of great power balance in Iran calculations:

There no doubt that Natl Front lists in position responsibility wld prefer that US support cld be used as counterbalance to Sov pressure. On other hand, if NF obtains impression that US does not fol course which will strengthen Iran's econ position, it likely, regardless consequences, lash out at US. Our opinion US at this moment being tried in balance by Front leaders, attitude of whom will not remain static. US being given brief period wherein to produce concrete and substantial evidence of its material interest in Iran. If this evidence not forthcoming we believe Iran Govt will need no prodding from Tudeh deliberately to curtail and eliminate various US activities here. It might not however go so far as to break diplomatic relations with US. As Dept has been informed, hostility to mil mission widespread in Front circles and certain elements including Kashani critical Point IV. Elimination these US activities wld place US at disadvantage in its efforts combat covert Sov activities.

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[4] None printed. (888.16/10–752, 788.00/8–2852, 788.00/8–752, and 888.00/9–952, respectively)

[5] Not printed. (788.00/10–752)

[6] Neither printed. (888.00 TA/9–1952 and 10–3052, respectively)

3. We agree with Dept that conclusion C is basic US problem re Iran. However re conclusion A we have considerable doubt. In our opinion situation already possesses instability which presently existing factors tend to develop. We seriously doubt that present loose coalition like NF has org durability, clarity of objectives and determination which wld be necessary to carry it intact thru another year. Only conclusion we can draw just now is that for immed future Mosadeq likely remain in power. We know of no other leader who cld head loose coalition and control factionalism within its ranks. Successor to Mosadeq, therefore, to remain in office must have support elements other than or additional to NF. Without external finan and econ aid (such as US assist in selling its oil) which Mosadeq govt believes it requires for pol purposes, his regime cld be increasingly responsive to Tudeh pressures. Successor govt purporting to be based on NF might be more so. In midst country's trend toward disorg we hesitate predict rate growth Tudeh influence other than to state it will be progressive.

Econ comment upon Dept's conclusion be given in immed fol tel.[7]

HENDERSON

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[7] On Nov. 5 Ambassador Henderson reported that while he and his colleagues agreed with the general proposition that the Iranian economy could continue for some time to exhibit resilience and adaptability, they believed the Department's economic estimate advanced in paragraph b of telegram 1081 (Document 233), was overoptimistic for the longer term. Although the Iranian Government's secret decision to increase the amount of currency in circulation was providing short-term economic benefits, in the long run it would become dangerous and could lead to rampant inflation unless Iran received more foreign aid or renewed oil revenue before the beginning of Iran's new year on Mar. 21, 1953. A second source of potential difficulty was the balance of payments situation, although, at that time, it was satisfactory. In conclusion, Henderson thought that if the oil-less economic situation continued, only a regime which was a skillful, strong, and ruthless dictatorship could successfully resist Tudeh penetration. Henderson did not see any political group other than the Tudeh capable of providing such a dictatorship. (Telegram 1851; 888.00/11–552)

No. 236

888.2553/11-752

Memorandum by the Secretary of State to the President

TOP SECRET WASHINGTON, November 7, 1952.

Subject: Decisions necessary if we are to move forward toward a solution of the Iranian dispute

Reference is made to the memorandum to you of this date on the Iranian problem,[1] in which were outlined certain possible courses of action which we may wish to develop further after receiving the reply of the United Kingdom to our recent proposals. Further action on our part will be contingent on your agreement that if it develops that a program to save Iran would require that you use the authority given you under the Defense Production Act of 1950, as amended,[2] and if the more detailed program which may be worked out meets with your approval, you will be prepared to use that authority:

a. to authorize an advance of up to $100,000,000 by DMPA against future purchases of Iranian oil and oil products;

b. to authorize under Section 708(a) and (b) a voluntary program under which one or more United States companies, either alone or in cooperation with Anglo-Iranian Oil Company, and possibly including one or more of the "major" United States oil companies, would purchase and market Iranian oil and oil products.

I recommend that you indicate your willingness to consider taking this action if necessary to the development of a solution of the Iranian problem.[3]

[Enclosure]

Subject: Decisions necessary if we are to move forward toward a solution of the Iranian dispute

The Iranian situation continues to deteriorate at an accelerated pace. We are faced with three choices: First, to take no action in the hope that the Iranians will become more amenable as their internal situation worsens. Second, to support the present government by providing very large scale budgetary aid. Third, to find a solution to the oil problem and provide funds incident thereto which will bolster up their economy until they can derive substantial income from the flow of oil. For a long time we have felt that the first, in light of their precarious internal situation, was far too dangerous for us to consider. This has been the U.K. policy and it has been tried unsuccessfully for 20 months. The second, at best, merely buys time; implies an operation without terminal date; more importantly, it cannot be recommended since it would take months until the new Congress could act. Perforce and because the third has always seemed to us to be the proper course, we have bent all our efforts toward finding a solution of the oil problem.

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[1] Reference is to the memorandum below.

[2] The Defense Production Act Amendments of 1951 became P.L. 82-96 on July 31, 1951; for text, see 65 Stat. 131. The Defense Production Act of 1950 was signed into law on Sept. 8, 1950, as P.L. 81-774; for text, see 64 Stat. (pt. 1) 798.

[3] The following notation in the President's handwriting appears below this paragraph in the source text: "Approved Nov. 7, 1952, Harry S. Truman."

To this end, as you know, we have had countless communications and conferences with our British friends, the most recent of which took place in London about 10 days ago when a U.S. mission conferred for several days with U.K. and Anglo-Iranian Oil Co. officials. In those discussions the British agreed that any settlement of the oil dispute should contemplate a reasonably large-scale production and marketing of Iranian oil and oil products. Otherwise, the major purposes of a settlement, (a) the receipt by Iran of sufficient revenues to meet its economic problems and (b) the receipt by AIOC of compensation in adequate volume, could not be realized.

It was also agreed that the chances of a settlement would be greatly increased if the United States, through the Defense Materials Procurement Agency, were in a position to advance against future purchases of oil or oil products the sums needed by Iran to get its oil properties back into operation and to tide Iran over until such time as substantial oil revenues become available. It was estimated that an advance of up to $100 million might be necessary for these purposes.

The British were not clear, however, as to whether they would prefer that the responsibility, after a settlement, for marketing the bulk of Iranian oil should be undertaken (a) by AIOC, or (b) by a consortium including AIOC and American or other companies, or (c) by one or more U.S. companies. They agreed that if they should come to the conclusion that alternatives (b) or (c) were the most advisable from their point of view they should make this fact clear to their people so that there would be no misunderstanding on the part of the British people. They are now engaged in considering with AIOC the various alternatives and should shortly be in a position to give us their views.

Certain decisions on our part are necessary if we are to be in a position to act with adequate promptness toward a settlement once we have received the British views. These decisions are (1) whether the President would be prepared to authorize an advance of up to $100 million by DMPA against future purchases of Iranian oil and oil products, and (2) whether the President is prepared to utilize the authority given him under Section 708(a) and (b) of the Defense Production Act of 1950, as amended, in approving a program under which U.S. oil companies, possibly in cooperation with AIOC, would purchase and market Iranian oil and oil products as part of a program to settle the Iranian oil dispute.

The question of an advance by DMPA would arise under any of the alternative solutions being considered. We have discussed this problem with the Defense Production Administration, Mr. Fowler, and the DMP Administrator, Mr. Larson, and their counsel. They are agreed that legal authority for such an advance exists and that funds up to the amount of $100 million could be made available. The Armed Services have indicated that they would be prepared to repurchase from DMPA substantial quantities of aviation gasoline, jet fuel, motor gasoline and Navy special fuel oil if these products could be made available from Iran, thus the advance could be repaid in a few years. A determination would be necessary that the advance was in the interest of saving Iran and that the resumption of the availability of oil from Iran contributed to the military defense of ourselves and our NATO partners.

In the event the British decide that AIOC should resume the responsibility, after a settlement, for marketing the bulk of the Iranian oil, the second decision with respect to Section 708(a) and (b) of the Defense Production Act of 1950 would not arise. If, however, they were to decide in favor either of a consortium including AIOC and American oil companies or one or more U.S. companies alone assuming the responsibility for marketing Iranian oil there would arise a serious question with respect to the present anti-trust action by the Department of Justice involving AIOC and the U.S. majors. Section 708(a) and (b) of the Defense Production Act of 1950, as amended, authorized the President to consult with representatives of industry, business and others with a view to encouraging the making by such persons, with the President's approval, of voluntary agreements and programs to further the objectives of the Act. These purposes include the development and maintenance of whatever military and economic strength is found to be necessary to support collective action through the United Nations in order to carry out the policy of the United States to promote peace by ensuring the peaceful settlement of differences among nations. Under these sections, no act or omission to act, if requested by the President pursuant to a voluntary agreement or program which he has approved, and found by the President to be in the public interest as contributing to the national defense, shall be construed to be within the prohibitions of the antitrust laws or the Federal Trade

Commission Act, if it occurs while the Defense Production Act is in effect.

Only the major U.S. and foreign oil companies who are involved in a Department of Justice antitrust action have markets and tankers in sufficient volume to absorb and move the quantities of oil which it would be necessary to move from Iran if an effective solution to the Iranian oil crisis is to be worked out. If the British should decide that, because of the foreign exchange and the commercial risks involved, they cannot request AIOC to assume responsibility for marketing and transporting Iranian oil, it will be necessary to call upon the cooperation of one or more of the U.S. major oil companies. It is believed that the necessary legislative authority exists under Section 708(a) and (b) of the Defense Production Act, as amended.

It is contemplated that any program which would be submitted for the President's approval would be limited to a maximum duration of two or three years. During this period it would be possible to ask the Congress to review the legislative situation and, if it deems it to be appropriate, to pass legislation which would make possible longer term arrangements. Alternatively, during such a period it should be possible for independent American oil companies to construct or charter sufficient tankers to relieve the major U.S. oil companies of their responsibility at the expiration of such a time period.

Following a reply by the U.K. Government, which we expect daily, to our recent proposals, further prompt action on our part will be contingent upon the President's agreement to:

A. Authorize the use of $100,000,000 available under the Defense Production Act of 1950, As Amended, for the purpose of making an advance against the purchase of Iranian oil and products.

B. Use his authority under Section 708(a) and (b) of the Defense Production Act of 1950, As Amended, to approve a program under which one or more U.S. major oil companies, either alone or in cooperation with Anglo-Iranian Oil Company, would purchase and market Iranian oil products.

It is recommended that the President indicate his willingness to take this action if necessary to the development of a solution of the Iranian problem.

No. 237

888.2553/11-1852: Telegram

The Ambassador in the United Kingdom (Gifford) to the Department of State[1]

TOP SECRET NIACT LONDON, November 18, 1952—6 p. m.

2844. Eyes only Bruce, Byroade and Nitze. Following is abbreviated text paper on Iran oil problem handed us by FonOff today under conditions set forth Embtel 2845 today:[2]

Begin Text.

(1) There will be three stages of development:

I. Inter-governmental discussions leading to agreement for assessment compensation by arbitration by ICJ or other impartial person or body.

II. Agreement referred to under I having been reached, then

(a) Iran wld be free sell to anyone.

(b) AIOC wld enter into commercial negotiations with Iran in endeavor make interim agreement for purchase oil during period until arbitration award announced.

Contemplated agreement wld be made by 100 percent subsidiary of AIOC referred below as "export company".

(c) Seems that DMPA wld be prepared lift oil and advance considerable sums money against contracted quantities. Not clear whether they wld be prepared, as we shld hope, do this through export company, or direct. Quantities involved might vary between 1 and 3.5 million tons per annum.

III. Following announcement arbitration award, longer-term arrangements wld be made by company with Iran to replace interim agreement and to give effect to arbitration award. Award cld be discharged in form of "compensation oil" over a period when it is assumed that company wld, in addition to receiving "compensation oil", be purchasing oil.

(2) Purpose this note is to give general review of ground to be covered in commercial negotiations between AIOC and Iran for interim agreement (Stage II(b) above).

Two important matters, beyond scope normal commercial negotiations for purchase of oil, on which agreement should be reached with Iran are:

(a) Essential that Iran shld agree not interfere with any tankers sent Iran ports for export company's loadings, nor with any craft available to assist in handling tankers. This might be covered by exchange of letters between governments if it proves impracticable deal with it in arbitration agreement.

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[1] Repeated to Tehran eyes only for Mattison and to the U.S. Mission at the United Nations in New York eyes only for the Secretary of State.

[2] Not printed. (888.2553/11-1852)

(b) Most desirable Iran shld undertake that proportion revenue from all sales of oil during period of arbitration be paid into neutral account, to be held against arbitration award.

These two points shld preferably be dealt with between governments or with some kind of governmental cover, and if possible before commercial negotiations begin. In any case, commercial negotiations cld not be concluded until satisfactory understanding on them had been reached.

(3) Fundamental feature Stage II is that Iran wld be free sell oil to all comers. Iran, therefore, may be negotiating with other potential buyers at same time negotiations with company proceeding. References in this note to possible terms and conditions of contract to be made by company relate solely to oil with which company wld be concerned; terms to be obtained by other buyers wld be matters for them to negotiate themselves. Company's position wld be it can materially assist towards desired objective of achieving exports from Iran on substantial scale provided satisfactory terms can be arranged, and, of course, export company wld be free dispose of oil it acquires to anyone—including possibly DMPA (See II(c) above).

(4) Commercial negotiation will call for flexible approach; neither practicable nor advisable attempt in advance specify too much. Fundamental points are those relating quantities, prices and payment, but agreement wld also need be reached on other considerations (see paragraph 8 below) which must be covered in any normal commercial contract.

(5) Quantities. Commitment which export company cld undertake and speed of build-up from stage of initial liftings depend—apart from price factor—on practical questions such as what qualities will be available, and conditions in port.

Assuming satisfactory price basis evolved, that good range products available, satisfactory specifications, and that port conditions satisfactory, this contemplated export company's off-take (excluding any possible DMPA tonnages) might be developed within a year up to rate of 7.5 million tons per annum of products (or more in favorable circumstance) or say 10 million tons, allowing also for crude oil.

(6) Price. There are basic considerations that arrangements must be such as not to risk undesirable repercussions in adjoining areas, and so framed as not inhibit transition later on to longer-term arrangements in Stage III. Still consistent with observance these basic considerations there is room for variety of method in reaching satisfactory result.

Eminently desirable pricing formulae be simple as possible and agreement include provision for export company to be given benefit any lower prices which Iran might quote others.

In case of crude, it is felt aim should be straight discount off Persian Gulf posted price.

In case of products, matter could be developed on either of two methods, both of which regarded as open for negotiation:

(i) Discount off US Gulf posted price for individual products (Platt's "low") together with provision for freight absorption element; or

(ii) Crude oil price, together with charge for refining to give agreed yield of products.

Both in case of crude and of products, arrangements should include provision for payment of proportion of purchase price into neutral account, as mentioned in paragraph 2. Such provision most desirable as matter of principle and also in relation need to avoid appearance of disparity in other areas.

There is also question of price for oil in stock, which calls for separate consideration as costs of producing it have already been borne by company. There could be flat rate of payment per ton for all products (at rate approximating government price in adjacent areas) or, alternatively, payment cld be made at varying rates per ton for the several products at percentage of products' low value. There is, however, possibility that claim will be made that oil in stock be regarded as asset belonging to AIOC, and therefore included in their claim for arbitration; if regarded in this way it would not call for separate treatment.

(7) Payment. Contemplated that provisional payment wld be made on telegraphic advice of quantities loaded, cargo by cargo, thus ensuring flow of revenue to Iran as oil shipped. Provisional payments would be subject adjustment when full details of cargo available.

Contemplated export company wld pay in sterling; arrangements in respect convertibility wld be matter for inter-governmental settlement.

(8) Other considerations. Certain practical considerations, relevant to how soon shipments cld begin, will need be cleared. Will be appreciated many of these considerations will concern not only export company but also other purchasers.

Ships could not be sent to load until ascertained by appropriate expert inspection that tankers can be safely berthed, that necessary depth of water available at jetties (not known to what extent silting may have taken place) and that all other facilities for safe handling of ships are available. A shipping agency service (which might be established by some independent firm) will need be constituted, and consideration will have be given in matters as shore accommodation for ships crews.

Arrangements will need be made for certification quality and quantity of supplies loaded; wld seem advisable, in interests both of supplier and lifter, that independent inspection service be appointed do this work. Will in particular be necessary establish quality of oil in stock from which initial liftings wld be supplied. Assurance that oil to be shipped is of satisfactory marketable specification clearly essential as regards both supplies to be drawn from initial stocks and those from subsequent production.

End Text.

Full text by pouch.[3]

GIFFORD

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[3] In despatch 2353 from London, Nov. 19. (888.2553/11-1952)

No. 238

Truman Library, Truman papers, PSF-Subject file

Memorandum for the President of Discussion at the 125th Meeting of the National Security Council on November 19, 1952[1]

TOP SECRET

The following notes contain a summary of the discussion at the 125th Meeting of the National Security Council, at which you presided. The Vice President did not attend the meeting because of illness. Under Secretary Bruce attended for the Secretary of State, and Deputy Secretary Foster attended for the Secretary of Defense because of the two Secretaries' absence from the city. Mr. Leonard Emmerglick participated in the action on Item 2 for the Attorney General.

[Here follows a paragraph in which the participants noted an oral briefing on the military situation in Korea.]

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[1] Prepared on Nov. 19, presumably by the Secretariat of the NSC. According to the minutes of the meeting, which consist of a list of participants and a brief list of decisions taken at the meeting, the following members of the Council attended: President Truman, presiding, Acting Secretary of State Bruce, Acting Secretary of Defense Foster, Director for Mutual Security Harriman, and Chairman of the National Security Resources Board Gorrie. Others present at the meeting included Leonard Emmerglick, for the Attorney General; Sidney W. Souers, Special Consultant to the President; General J. Lawton Collins, for the Chairman of the Joint Chiefs of Staff; and Lay and S. Everett Gleason of the NSC Secretariat. (Minutes of the 125th meeting of the NSC, Nov. 19; Truman Library, Truman papers, PSF-Subject file)

2. *United States Policy Regarding the Present Situation in Iran* (NSC 136; Memos for NSC from Executive Secretary, same subject, dated November 18 and November 19, 1952; NSC 107/2; NSC 117; SE-33; NIE-75)[2]

At the conclusion of the briefing on the situation in Korea, the President turned to Mr. Lay, who pointed out that the report on Iran constituted the sole item for consideration scheduled on the agenda for today's meeting. He also pointed out that the Director of Defense Mobilization, though not at this meeting, had concurred in the present report. Mr. Lay called attention to the fact that Mr. Emmerglick for the Attorney General was present to discuss the areas of the paper which involved the Department of Justice.

The President then turned to Secretary Bruce and asked if he cared to comment on the report.

Secretary Bruce replied that he agreed with the paper and therefore had no comments to make at this time.

The President then asked Secretary Foster for the Defense views.

Secretary Foster emphasized the seriousness with which the Defense Department regarded the situation in Iran, and also stressed the Defense view that the present paper must be regarded as an interim policy. He noted that the present paper was designed if possible to effect a solution of the Iranian problem in the first instance by political and economic measures, and went on to express the hope that the courses of action set forth in these fields would be pursued aggressively. If the results of pursuing a policy which called for cooperation with the British proved unsuccessful, continued Secretary Foster, it would be necessary for the United States to proceed unilaterally to get Iranian oil flowing again and to get Iran back on our side. In conclusion, Secretary Foster expressed the hope that non-military measures would succeed in solving the Iranian problem, but added that if they did not, the Defense Department had already reached tentative conclusions as to the feasibility of the military courses of action which the present report envisaged. He said he felt constrained to point out that these military courses of action would be extremely difficult to implement and would require the transfer of American forces from other areas where the United States had commitments, or else an increase in the level of forces now in being or planned. Accordingly, it was particularly desirable to achieve our objectives in Iran if possible by non-military means.

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[2] For texts of NSC 107/2 and NSC 117, see Documents 32 and 111. NIE-75, Nov. 13, 1952, has not been found in Department of State files; SE-33, Oct. 14, 1952, is in INR-SE files. Regarding NSC 136 and the memoranda of Nov. 18 and 19, see *infra*.

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Secretary Bruce then addressed a question to Mr. Emmerglick relative to the attitude of the Department of Justice to a move by the State Department to hold conversations with major oil companies as to ways and means of getting Iranian oil flowing.

Mr. Emmerglick replied that he agreed in principle to the institution of such talks, and did not see any reason why the current problems involving these oil companies should inhibit such talks as the State Department desired to undertake. He did point out, however, that the Department of Justice would naturally wish to reserve its position with respect to any specific plan which might evolve as a result of the conversations Secretary Bruce had in mind.

The National Security Council:

a. Noted the views of the Joint Chiefs of Staff, including the reference to the Treaty of Friendship Between Persia and the Russian Socialist Federal Soviet Republic signed at Moscow on February 26, 1921.

b. Adopted the statement of policy contained in NSC 136, subject to the revisions recommended therein by the Senior NSC Staff in the enclosure to the reference memorandum of November 19.

c. Noted that Mr. Emmerglick for the Attorney General, while concurring in principle with subparagraph (4) on page 4 of NSC 136, reserved the position of the Department of Justice on specific plans which might be submitted to it pursuant thereto.

Note: Mr. Emmerglick for the Attorney General participated in the above action with the Council. The Director of Defense Mobilization was unable to attend the Council meeting, but his office has indicated concurrence with NSC 136, as amended. NSC 136, as amended, subsequently submitted to the President for consideration.[3]

[Here follow considerations of the definition of United States policy on problems of the defense of Europe and the German contribution, United States policies and programs in the economic field which might affect the war potential of the Soviet bloc, the security of strategically important industrial operations in foreign countries, United States policy toward inter-American military collaboration, and the status of NSC projects as of November 14.]

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[3] These three lettered paragraphs and Note concerning U.S. policy regarding the present situation in Iran were adopted verbatim as NSC Action No. 680. (S/S–NSC (Miscellaneous) files, lot 66 D 95, "Record of Actions by the National Security Council, 1952")

No. 239

Editorial Note

As early as September 18, the Senior Staff of the NSC had agreed that NSC 107/2 (Document 32) was outdated, and that the Senior Department of State Member should explore the practicability of issuing a new statement of policy to supersede NSC 107/2. On October 1 and 7, Executive Secretary lay distributed memoranda to the Senior Staff enclosing changes in NSC 107/2 proposed by the Senior Defense and Senior State Members, respectively. The Senior Staff, in turn, directed the NSC Staff Assistants on October 9 to prepare a draft revision of the statement of policy contained in NSC 107/2 for Senior Staff consideration at its meeting on October 16. Acting Executive Secretary Gleason distributed the Staff Assistants' draft revision of the statement of policy in NSC 107/2 to the Senior Staff on October 13.

The Senior Staff failed to consider the Staff Assistants' draft statement of policy until November 4, at which time the Senior Staff considered not only the October 13 draft statement but also suggested changes in it proposed in a memorandum from the Senior State Member which was circulated by Executive Secretary Lay on October 29. On November 4, the Senior Staff Members were unable to agree to the contents of the two documents and directed the Senior State and Defense Members to compose their differences the following day to enable the Senior Staff to resume consideration of the draft statement of policy on November 6. On November 5 the Senior State and Acting Senior Defense Members successfully resolved their differences, and Executive Secretary Lay that day circulated a memorandum to the Senior Staff to that effect. On November 6, the Senior Staff approved the draft statement of policy dated October 13, the proposed revisions thereto of October 29 and November 5, and submitted the draft statement of policy as amended to the National Security Council on November 6 as NSC 136.

The Senior Staff of the NSC was required, however, to take further action on NSC 136 prior to the National Security Council's consideration of it on November 19. On November 14, Executive Secretary Lay distributed a memorandum to the Senior Staff enclosing suggested changes advanced by the Senior CIA Member. Additionally, on November 18, Lay distributed, under a covering memorandum to the National Security Council, a memorandum signed by General Bradley in which he recommended, on behalf of the Joint Chiefs of Staff, that subparagraph 5b should be marked with an asterisk, and that there should be inserted a corresponding footnote which would read:

> "If for overriding political reasons it is found necessary for the United States to provide military forces in this area, implementation will require either a substantial augmentation of over-all United States forces or a reduction of present United States military commitments elsewhere."

The Joint Chiefs of Staff also noted that there was no mention made in the draft statement of policy of the Treaty of Friendship Between Persia and the Russian Socialist Federal Soviet Republics signed on February 26, 1921, and recommended that the National Security Council not overlook this aspect of the problem when it took action on NSC 136.

Consequently, the Senior Staff, on November 18, reviewed NSC 136 in light of the CIA and JCS suggestions, and agreed to recommend to the National Security Council for its consideration the revisions advanced by CIA and JCS along with three minor changes in phraseology. Executive Secretary Lay, under cover of a memorandum dated November 19, conveyed these suggested revisions to the members of the National Security Council. The textual differences between NSC 136/1, *infra*, and the draft statement of policy, NSC 136, November 6, are indicated in footnotes, *infra*.

Documents cited in this editorial note are in the following Department of State lot files: S/S–NSC files, lot 63 D 351, "NSC 136: United States Policy Regarding the Present Situation in Iran"; S/P–NSC files, lot 61 D 167, "Iran, US Policy Regarding the Present Situation, NSC 117, 136, 136/1"; and S/P–NSC files, lot 62 D 1, "Record of Meeting Senior Staff, 1950–52".

No. 240

S/S–NSC files, lot 63 D 351, "NSC 136: United States Policy Regarding the Present Situation in Iran"

Statement of Policy Proposed by the National Security Council[1]

TOP SECRET [WASHINGTON, November 20, 1952.]
[NSC 136/1]

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[1] This proposed statement of policy, along with a cover sheet, a memorandum, and a background note, all dated Nov. 20, from James S. Lay, Jr., Executive Secretary of the National Security Council, were circulated to members of the National Security Council, the Secretary of the Treasury, the Attorney General, and the Director of Defense Mobilization for their information as NSC 136/1 of Nov. 20, 1952, "United States Policy Regarding the Present Situation in Iran".

Lay explained in the memorandum and in the background note as well that President Truman, on Nov. 20, had approved NSC 136, as amended and adopted by the

Continued

THE PRESENT SITUATION IN IRAN

1. It is of critical importance to the United States that Iran remain an independent and sovereign nation, not dominated by the USSR. Because of its key strategic position, its petroleum resources, its vulnerability to intervention or armed attack by the USSR, and its vulnerability to political subversion, Iran must be regarded as a continuing objective of Soviet expansion. The loss of Iran by default or by Soviet intervention would:

a. Be a major threat to the security of the entire Middle East, including Pakistan and India.
b. Permit communist denial to the free world of access to Iranian oil and seriously threaten the loss of other Middle Eastern oil.
c. Increase the Soviet Union's capability to threaten important United States–United Kingdom lines of communication.
d. Damage United States prestige in nearby countries and with the exception of Turkey and possibly Pakistan, seriously weaken, if not destroy, their will to resist communist pressures.
e. Set off a series of military, political and economic developments, the consequences of which would seriously endanger the security interests of the United States.

2. Present trends in Iran are unfavorable to the maintenance of control by a non-communist regime for an extended period of time. In wresting the political initiative from the Shah, the landlords, and other traditional holders of power, the National Front politicians now in power have at least temporarily eliminated every alternative to their own rule except the Communist Tudeh Party. However, the ability of the National Front to maintain control of the situation indefinitely is uncertain. The political upheaval which brought the nationalists to power has heightened popular desire for promised economic and social betterment and has increased social unrest. At the same time, nationalist failure to restore the oil industry to operation has led to near-exhaustion of the government's financial reserves and to deficit financing to meet current expenses, and is likely to produce a progressive deterioration of the economy at large.

3. It is now estimated that communist forces will probably not gain control of the Iranian Government during 1953.[2] Neverthe-

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National Security Council at its 125th meeting on Nov. 19 (NSC Action No. 680; see footnote 3, Document 238); that the President directed the Secretary of State to coordinate its implementation by all the appropriate executive departments and agencies of the U.S. Government; that NSC 136, as amended, was being issued as NSC 136/1; and, furthermore, that NSC 107/2, "The Position of the United States with Respect to Iran", was superseded by NSC 136/1.

Regarding the drafting history of NSC 136/1, see *supra*.

[2] See NIE-75, "Probable Developments in Iran Through 1953," published November 6, 1952. [Footnote in the source text.]

less, the Iranian situation contains very great elements of instability. Any US policy regarding Iran must accordingly take into account the danger that the communists might be enabled to gain the ascendency as a result of such possible developments as a struggle for power within the National Front, more effective communist infiltration of the government than now appears probable, government failure to maintain the security forces and to take effective action against communist activity, or a major crop failure. It is clear that the United Kingdom no longer possesses the capability unilaterally to assure stability in the area. If present trends continue unchecked, Iran could be effectively lost to the free world in advance of an actual communist takeover of the Iranian Government. Failure to arrest present trends in Iran involves a serious risk to the national security of the United States.[3]

4. For the reasons outlined above, the major United States policy objective with respect to Iran is to prevent the country from coming under communist control. The United States should, therefore, be prepared to pursue the policies which would be most effective in accomplishing this objective. In the light of the present situation the United States should adopt and pursue the following policies:

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[3] In the Nov. 6 draft of the statement of policy (see *supra*), paragraphs 2 and 3 read as follows:

"2. The situation in Iran presents widening opportunities to the communist organization there. Social unrest is spreading in the wake of nationalist agitation and of disruption of the traditional structure of Iranian leadership and institutions. Government promises of early prosperity following eviction of the British Oil Company have not been fulfilled. On the contrary, the inability of the interested parties to reach an oil settlement and the inability of Iran to dispose of its oil have contributed to a worsening of economic conditions. The resulting popular bewilderment and frustration have increased receptivity to communist propaganda and agitation. The Government's budgetary difficulties as a result of the loss of oil revenue have led to currency inflation, almost complete curtailment of public works, and fears that Iran's military forces and civil administration may soon face demoralizing reductions in size and pay. Meanwhile, nationalist politicians, in their vanity and selfishness, show little understanding of the true nature of the communist threat and are vulnerable to communist efforts to infiltrate the nationalist movement.

"3. It is now estimated that communist forces will probably not gain control of the Iranian Government during 1953. Nevertheless the Iranian situation contains very great elements of instability and there is a continuing danger of serious communist infiltration of the National Front and the Government bureaucracy. It is clear that the United Kingdom no longer possesses the capability unilaterally to assure stability in the area. Therefore if present trends continue unchecked, Iran could be effectively lost to the free world before an actual communist take-over of the Iranian Government. Failure to arrest present trends in Iran involves a serious risk to the national security of the United States."

A footnote after the first sentence in paragraph 3 in the Nov. 6 draft of the statement of policy reads as follows:

"See NIE–75, 'Probable Developments in Iran Through 1953', approved November 6, 1952." (S/P–NSC files, lot 61 D 167, "Iran, US Policy Regarding the Present Situation, NSC 117, 136, 136/1")

a. Continue to assist in every practicable way to effect an early and equitable liquidation of the oil controversy.

b. Be prepared to take the necessary measures to help Iran to start up her oil industry and to secure markets for her oil so that Iran may benefit from substantial oil revenues.

c. Be prepared to provide prompt United States budgetary aid to Iran if, pending restoration of her oil industry and oil markets, such aid is necessary to halt a serious deterioration of the financial and political situation in Iran.

In carrying out a, b, and c above, the United States should:

> (1) Maintain full consultation with the United Kingdom.
>
> (2) Avoid unnecessarily sacrificing legitimate United Kingdom interests or unnecessarily impairing United States-United Kingdom relations.
>
> (3) Not permit the United Kingdom to veto any United States actions which the United States considers essential to the achievement of the policy objective set forth above.
>
> (4) Be prepared to avail itself of the authority of the President to approve voluntary agreements and programs under Section 708(a) and (b) of the Defense Production Act of 1950, as amended.

d. Recognize the strength of Iranian nationalist feeling; try to direct it into constructive channels and be ready to exploit any opportunity to do so, bearing in mind the desirability of strengthening in Iran the ability and desire of the Iranian people to resist communist pressure.

e. Continue present programs of military, economic and technical assistance to the extent they will help to restore stability and increase internal security, and be prepared to increase such assistance to support Iranian resistance to communist pressure.

f. Encourage the adoption by the Iranian Government of necessary financial, judicial and administrative and other reforms.

• • • • • • •

h. Plan now for the eventual inclusion of Iran in any regional defense arrangement which may be developed in the Middle East if such inclusion should later prove feasible.

5. In the event of either an attempted or an actual communist seizure of power in one or more of the provinces of Iran or in Tehran, the United States should support a non-communist Iranian Government, including participation in the military support of such a government if necessary and useful.[4] Preparations for such an eventuality should include:

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[4] If it is found necessary for the United States to provide military forces in this area, implementation will require either a substantial augmentation of over-all United States forces or a reduction of present United States military commitments elsewhere. [Footnote in the source text. This footnote did not appear in the Nov. 6 draft statement of policy. (S/P-NSC files, lot 61 D 167, "Iran, US Policy Regarding the Present Situation, NSC 117, 136, 136/1")]

a. Plans for the specific military, economic, diplomatic, and psychological measures which should be taken to support a non-communist Iranian Government or to prevent all or part of Iran or adjacent areas from falling under communist domination.

b. Politico-military discussions with the British Government and such other governments as may be appropriate, with a view to determining (1) courses of action which might be pursued and (2) the allocation of responsibility in carrying out such courses of action in the area.

• • • • • • •

d. Perfection of plans concerning the handling of the matter by the United Nations if and when that becomes necessary.

6. In the event that a communist government achieves complete control of Iran so rapidly that no non-communist[5] Iranian Government is available to request assistance, the position of the United States would have to be determined in the light of the situation at the time, although politico-military-economic discussions leading to plans for meeting such a situation should be carried on with the British Government and with such other governments as may be appropriate.[6] In this contingency, the United States should make every feasible effort, . . . to endeavor to develop or maintain localized centers of resistance and to harass, undermine, and if possible, to bring about the overthrow of the communist government.

7. In the event of a Soviet attack by organized USSR military forces against Iran, the United States in common prudence would have to proceed on the assumption that global war is probably imminent. Accordingly, the United States should then immediately:

a. Decide in the light of the circumstances existing at the time whether to attempt to localize action or to treat it as a *casus belli*. In either case necessary measures should include direct diplomatic action and resort to the United Nations with the objectives of:

(1) Making clear to the world the aggressive character of the Soviet action.

(2) Making clear to the world United States preference for a peaceful solution and the conditions upon which the United States would, in concert with other members of the United Nations, accept such a settlement.

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[5] The word "legal" rather than "non-communist" appeared in the Nov. 6 draft statement of policy. (S/P-NSC files, lot 61 D 167, "Iran, US Policy Regarding the Present Situation, NSC 117, 136, 136/1")

[6] The phrase "and with such other governments as may be appropriate" did not appear in the Nov. 6 draft statement of policy. Rather, the phrase "and, as appropriate, with the Turkish Government" appeared in its place. (S/P-NSC files, lot 61 D 167, "Iran, US Policy Regarding the Present Situation, NSC 117, 136, 136/1")

(3) Obtaining the authorization of the United Nations for member nations to take appropriate action in the name of the United Nations to assist Iran.

b. Consider a direct approach to the highest Soviet leaders.

c. Place itself in the best possible position to meet the increased threat of global war.

d. Consult with selected allies to perfect coordinated plans.

e. Take action against the aggressor to the extent and in the manner which would best contribute to the security of the United States.

f. Prepare to maintain, if necessary, an Iranian Government-in-exile.

No. 241

888.2553/11-2252: Telegram

The Acting Secretary of State to the Embassy in the United Kingdom[1]

SECRET WASHINGTON, November 22, 1952—4:12 p. m.

3510. Eyes only Gifford and Mattison. Secy and Mr. Eden had brief discussion on Iran situation in NY Nov 21. At conclusion of discussion Mr. Eden indicated that he wld cable London as to the course of the discussion and asked to assist him in this task for memo from us covering points which Secy had raised. To meet this request fol memo was handed to Brit in NY on evening of Nov 22. Text of memo fols:

"We have passed through many crises in the Iranian situation with our British friends, each of which has seen the situation grow steadily worse but never to the point of collapse. We believe in the present period, although it may be relatively calm in outward appearance, we are soon to face a new crisis which in all probability will be determinative.

"There is at the moment in Iran a feeling of some hope and expectation that somehow or other the United States will produce something new to assist in the solution of the Iranian oil problem. If this hope is frustrated by no progress it is our view that within a very short period Iran will also turn against the United States—and probably with the same end result of a complete break in relations. Should this happen, for all practical purposes Iran's ties with the West would be broken. It does not follow automatically that the Tudeh Party or its stooges would come immediately into power. It probably would mean, however, that the point of no return had been passed in the Iranian situation and that there would remain nothing that the US and UK, in concert or individually, could do to save the situation.

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[1] Also sent to Tehran. Drafted and signed by Byroade.

"There is every chance, in the present state of high emotion in Iran, that we may expect quite unpredictable and irrational moves on their part. We know that preparation is underway to discharge thousands of Government employees and Army personnel. The resultant dissatisfaction of this group can only serve to make matters worse. There is reason to believe that additional important members of the National Front may shortly move into the cabinet with either the Majlis dissolved or rendered impotent. It is not unlikely that Mosadeq in the near future will begin addressing demands and ultimatum upon the United States which could only serve to make matters worse.

"For the past 18 months the United States has utilized its greatest efforts in attempting to put forth ideas which could lead to a mutually acceptable solution. The last such effort resulted in the ideas which Mr. Nitze recently discussed with British representatives in London. The United States believes that these discussions were helpful and that progress has been made within recent weeks.

"The United States is studying with great care the plan produced by the British within the past week. In spite of the progress that has been made we do not feel that this plan meets the present situation. We believe that arrangements under phase 2 would have to hold real inducement to the Iranians to arrive at a satisfactory agreement upon the question of compensation in phase 1. We do not see that the present British plan holds such inducement. This plan speaks of lifting from Abadan in the neighborhood of 7 to 10 million tons per annum. It seems clear that this is an inadequate movement of oil to meet the Iranian economical and financial situation. If we consider that part of the payments to Iran would have to be set aside for compensation and to meet advances on part of the US Government it is clear that remaining funds available to Iran would indeed be inadequate. It has been our feeling that a minimum of twenty million tons per annum must be reached reasonably promptly in order to effect a solution.

"The United States also cannot believe that there isn't some other method of moving forward on the question of compensation. We have not given up the possibility that Mosadeq might be induced to put forward a satisfactory lump-sum settlement offer. There may even be variations of this idea. An example might be found among practices of the US Government during the two world wars. The United States in obtaining private property for Government use set what it believed to be a fair value on the property taken. The owner was notified of this amount and informed that he could collect the full amount in full settlement of his claim at his option. If the owner did not agree that the amount specified by the US Government was a fair value, he could challenge that evaluation and carry his case through legal proceedings. In such a case the US Government notified the previous owner that he could collect at will ¾ of the total amount, leaving the remainder to be settled at the final determination of the property value. At any time the owner could exercise the option of claiming the remainder of the amount originally specified by the US Government or continue to debate the matter through negotiation or legal proceedings.

"The feeling that some move on the part of the West is necessary in the Iranian situation is growing steadily within all interested departments within our Government. We feel it of utmost importance that some move be made with the Iranians prior to or at the time of Loy Henderson's return to Tehran which should take place within two or three weeks.[2] For our part, it remains our firm hope that a solution can be found by the British or certainly that one can be found that will be fully acceptable to the British. In the event this proves to be impossible, it is not believed that the US Government can afford to remain idle while the Iranian problem drifts into a steadily worse situation.

"We believe that a new and more vigorous effort is required on the part of both Governments, and we will be quite prepared to send representatives to London, or to receive their representatives here, if this would facilitate matters. For its part the United States now has approval at the highest level to make available the sum discussed by Mr. Nitze in London.

"As it appears that the AIOC may find itself unable to move but a portion of the Iranian oil which clearly must be moved, it may be that arrangements will have to be made by the US Government to meet the remainder of the problem. We are working urgently to determine what type of arrangements could be made by US companies and would like to discuss these arrangements with the British at the earliest possible date. We shall make every effort to reach agreement with the British on these procedures. We would in any event always consult with them and strive for the solution which would be most acceptable to them. In the last analysis, however, the US Government may have no alternative, but to move forward in a manner best designed in its opinion to save Iran."

It was apparent during the discussion that Mr. Eden was not familiar with latest plan disclosed by UK and there was little discussion of substance on any specific aspect of the oil problem. Eden indicated his full agreement that both Govts shld step up their efforts in an effort to solve the problem. He stated that he wld be delighted if some of our reps wld again come to London for this purpose.

The question of a press release by US Govt covering question of purchase of Iran oil by US firms or individuals was also discussed. Eden was informed that we had accepted almost all of their proposed changes and had gone as far as we cld to meet their primary objection to the statement. Secy informed Eden that we wld release text at an early date. There is no definite date set at this time but the release will probably be made on Wednesday in Washington. Text of statement will be furnished by separate cable.[3]

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[2] Ambassador Henderson was in Washington.

BRUCE

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[3] The basic text was cabled to London in telegram 3511, Nov. 22. (888.2553/11-2252) This statement, however, was not released to the press until Dec. 6. For the final text, which varied slightly from the version in telegram 3511, see Department of State *Bulletin*, Dec. 15, 1952, p. 946.

No. 242

888.2553/11-2552: Telegram

The Acting Secretary of State to the Embassy in the United Kingdom[1]

SECRET
PRIORITY

WASHINGTON, November 25, 1952—7:02 p. m.

3556. Eyes only Gifford. Last portion of memo reporting Secy's statement to Mr. Eden (ref Deptel 3510 to Lon,[2] rptd Tehran 1256) has been revised as below. First five paras ending with phrase "in order to effect a solution" remain unchanged. This revision was passed to Brit here Tues evening. Revision was suggested by Secy for purpose of clarity as Brit seemed to have some doubts as to meaning of previous text.

"As it appears that AIOC may find itself unable to move but a portion of the Iranian oil which clearly must be moved, it may be that arrangements will have to be made by US Govt to meet the remainder of the problem. We are working urgently to determine what type of arrangements cld be made by US companies and wld like to discuss these arrangements with Brit at earliest possible date.

"The US also cannot believe that there isn't some other method of moving forward on the question of compensation. We have not given up the possibility that Mosadeq might be induced to put forward a satisfactory lumpsum settlement offer. There may even be variations of this idea. An example might be found among practices of US Govt during the two world wars. The US in obtaining private property for Govt use set what is believed to be a fair value on the property taken. The owner was notified of this amount and informed that he cld collect the full amount in full settlement of his claim at his option. If the owner did not agree that the amt specified by the US Govt was a fair value, he cld challenge that evaluation and carry his case through legal proceedings. In such a case, the US Govt notified the previous owner that he cld collect at will ¾ of the total amt, leaving the remainder to be settled at the final determination of the property value. At any time the owner cld exercise the option of claiming the remainder of the x amt originally specified by the US Govt or continue to debate the matter through negot or legal proceedings.

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[1] Repeated to Tehran eyes only for Mattison. Drafted and signed by Byroade.

[2] *Supra*.

"We believe that a new and more vigorous effort is required on the part of both Govts, and we will be quite prepared to send reps to Lon, or to receive their reps here, if this wld facilitate matters. For its part, the US now has approval at the highest level to make available the sum discussed by Mr. Nitze in Lon.

"The feeling that some move on the part of the West is necessary in the Iranian situation is growing steadily within all interested departments within our Govt. We feel it of utmost importance that some move be made with the Iranians prior to or at the time of Loy Henderson's return to Tehran which shld take place within two or three weeks. For our part, it remains our firm hope that a solution can be found by the Brit or certainly that one can be found that will be fully acceptable to the Brit. In the event that this proves to be impossible, it is not believed that the US Govt can afford to remain idle while the Iranian problem drifts into a steadily worse situation. We wld in any event always consult with the Brit and strive for the solution which wld be most acceptable to them. In the last analysis, however, the US Govt may have no alternative but to move forward in a manner best designed in its opinion to save Iran."

Bruce

No. 243

888.2553/11-2652

Memorandum by the Acting Secretary of State to the President

TOP SECRET WASHINGTON, [undated].

Subject: Iranian Oil Problem

Attached is a suggested letter which you may wish to send to the Department of State. This letter is designed to carry out the decisions which you made on November 7 in endorsing a memorandum in respect of the decisions necessary to move forward towards a solution of the Iranian dispute.

Since last I talked with you on this subject, we have had further conversations with the British which make it appear probable that the participation of our major oil companies will be necessary if we are to achieve a solution of the Iranian oil problem.

DAVID BRUCE

[Enclosure]

Draft Memorandum by the President to the Secretary of State[1]

TOP SECRET [WASHINGTON,] November 26, 1952.

As you are aware, I am considering a new approach to the Iranian oil dispute, which seriously threatens to deprive the free world of the oil resources of Iran on which depends the integrity and political independence of Iran itself. The approach would include the utilization of the authority granted me by the Congress in section 708 (a) and (b) of the Defense Production Act of 1950 as amended. Under these sections I am authorized to approve a voluntary agreement or program, under which one or more United States companies, acting in cooperation with the Anglo-Iranian Oil Company, would purchase and market Iranian oil and oil products.

In order that I may determine what type of agreement and program would be most likely to contribute to the national defense by leading to a solution of this situation, I hereby request you urgently to engage in exploratory discussion with representatives of United States oil companies and with the Anglo-Iranian Oil Company for the purpose of determining what type of action by me would produce the result desired. You will, of course, consult with the Government of the United Kingdom and such other countries as you consider necessary. You should also keep informed the Attorney General, the Defense Production Administrator, the Petroleum Administration for Defense of the Department of the Interior, and the Defense Materials Procurement Administrator, and such other agencies as you think necessary.[2]

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[1] At the bottom of the record copy of this memorandum appears the handwritten notation, "OK H.S.T."

[2] On Dec. 3, Acting Assistant Secretary of State for Economic Affairs Linder addressed letters to Attorney General McGranery, Defense Production Administrator Fowler, Defense Materials Procurement Agency Administrator Larson, and Secretary of the Interior Chapman informing them of the President's decision to proceed under Sections 708(a) and (b) of the Defense Production Act of 1950 as amended and enclosing for their information copies of the President's memorandum of Nov. 26 addressed to the Secretary of State. (888.2553/11-2652) The text of the Dec. 3 letter to McGranery is in *The International Petroleum Cartel, the Iranian Consortium and U.S. National Security*, prepared for use of the Subcommittee on Multinational Corporations of the Committee on Foreign Relations, United States Senate, Feb. 21, 1974 (Washington, Government Printing Office, 1974), p. 25.

No. 244

888.2553/12-352: Telegram

The Secretary of State to the Embassy in Iran[1]

TOP SECRET WASHINGTON, December 3, 1952—5:47 p. m.
PRIORITY

1338. Eyes only Mattison personal from Henderson. In ur discretion, pls deliver in utmost confidence fol personal msg from me to Mosadeq:

"1. As I expected I found on my arrival here that the US Govt is deeply concerned at the situation in Iran and responsible members and officials of Govt are of opinion that it is extremely important for Iran's future prosperity that oil dispute be settled as soon as possible. They have, therefore, been carefully exploring every avenue which might possibly lead to settlement. They face, however, a basic problem in disposal of the matter of compensation in a manner which would be acceptable to the Govt of Iran and to the British. A number of suggestions have been made as to formulae which might possibly be agreed to by Iran and the Brit for governing arbitral proceedings instituted for the purpose of determining the amount of compensation due. Among those suggestions is a formula which wld take into consideration ur note of Sept 24 to PriMin Churchill[2] in which the fol statement was made:

2. 'Determination of the amount of compensation to be paid for property belonging to the former oil company at the time of the nationalization of the oil industry in Iran and arrangements for paying this by installments based on any law carried out by any country for nationalizing its industries in similar instances which may be agreed to by the former oil company.'

3. With this statement of yours in mind, US officials who have been studying the question of compensation have asked for my opinion whether you wld consider a formula somewhat as follows:

4. There shall be submitted to some Board of Arbitration agreed to by both disputants, possibly appointed by the Internatl Court of Justice, the question of compensation to be paid in respect of the nationalization of the enterprise of the Anglo-Iranian Oil Company in Iran. This Board shall not question the validity of Iran's Nationalization Law and shall in setting the amount of compensation consider those standards which the Brit Govt used in determining the amount of compensation to be paid to any of the enterprises which it nationalized during the past ten years which in their opinion may be appropriate.

5. The problem which I wish frankly to place before you is that it is apparently the view of the Brit Govt, a view widely shared by the whole internatl business world, that any formula for determi-

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[1] Drafted by Richards and Stutesman and cleared in draft by the Secretary of State, Henderson, Fisher, and by Nitze, Linder, and Bonbright. Approved for transmission by Byroade.

[2] See footnote 1, Document 216.

nation of the value of property nationalized shld not specifically deny the Board of Arbitration the privilege of considering the earning value of property. It is thought that any appraisal of property which fails to take into account, as one of many factors, its earning power wld strike directly at the whole fabric of investment both national and internatl. I am wondering if there is not room within your formula quoted above to accommodate this pt of view.

6. The US has not consulted with the Brit on this matter nor are the Brit aware of this confidential msg from me to you. No one can know in advance which nationalization law might be chosen by the arbitrators as basis for determination of compensation. There are many such laws and the Board of Arbitration would be free to choose the most appropriate one. Nevertheless, since it is my sincere desire that you be fully informed before making any reply on this important matter, I must point out to you that the British Coal Industry Nationalization Law of Dec 1945 has the fol provision for determination of compensation:

7. 'The Tribunal shall determine the global sum required to provide a fair compensation to the owners of the assets described in Annex I hereto for the transfer of those assets to public ownership, and for that purpose shall ascertain the amount which the assets might be expected to realize if sold as one unit in the open market as assets of a going concern by a willing seller to a willing buyer on the basis of (a) the net annual maintainable revenue, that is to say the net annual revenue which the assets as a whole might reasonably be expected to earn in the future, if they were not transferred to public ownership, and (b) the number of years purchase to be applied thereto.'

8. I wld be grateful if you cld let me know through Mr. Mattison in confidence whether you wld be willing to agree that some board of arbitration determine the amount of compensation to be paid to the Anglo-Iranian Oil Company on the basis of your formula quoted in para 2 if carried out according to para 4. Of course, I would also appreciate any other comments which might be helpful in connection with this matter and I can assure you that anything which you might tell me will be treated with such degree of confidence as you might specify. Kindest regards."

In communication foregoing to Mosadeq you shld make its personal unofficial character absolutely clear. Pls also inform Mosadeq that it wld be personally most embarrassing to me were substance this msg to become public. Translation of msg may be handed Mosadeq in interests accuracy and understanding, but any translation shld be informal and unofficial and on plain paper. Reply shld be through you only.

ACHESON

No. 245

888.2553/12-452: Telegram

The Secretary of State to the Embassy in the United Kingdom[1]

SECRET PRIORITY WASHINGTON, December 4, 1952—6:22 p. m.

3763. Pls inform FonOff that mtg on Iran problem held today in Dept with reps major Amer oil cos.[2] Discussions assumed solution must be one which wld secure Brit and AIOC coop and which wld involve equitable settlement problem compensation. Latter point made unmistakably clear in view comment urtel 3110.[3] Discussion centered around manner in which US cos cld participate in effort move quantity oil from Iran that we have believed necessary to meet Iran situation. Mtg was inconclusive and will be resumed next Tues after various reps have had time adequately consider problem.[4]

It is now contemplated Nitze will depart here for Lon next Wed fol second mtg with oil reps. You will be informed later as to exact time arrival.

As regards pending press release (Deptel 3511 rptd Tehran 1257)[5] on question purchase oil from Iran by Amer firms or individuals it has now been decided that this will be issued on Sat at 12:00 noon Wash time.[6] This action results in no way from above described mtg but is forced upon us by greatly increased pressure from press as to our position re so-called embargo. Art appearing today's *Newsweek* has greatly added to that pressure. You will recall that Secy informed Eden in New York he anticipated we wld shortly be forced into position where we cld no longer refuse to comment. Brit

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[1] Repeated to Tehran. Drafted by Byroade and approved for transmission by Richards.

[2] A memorandum of the discussion at the meeting is not printed. (Secretary's Memoranda of Conversation, lot 65 D 238, "Memo from S & U-1952")

[3] On Dec. 3 the Embassy reported that Shell officials told the British Foreign Office that Department of State officials had been telling the American oil companies that the Department had examined the possibility of having Shell and AIOC move 10 million tons of Iranian oil between them with the American companies moving 10 million more. There was no indication from this report that the movement would be premised on Iranian acceptance of satisfactory arrangements regarding compensation. The Embassy was therefore requesting guidance concerning the position that the Department had taken in its conversations with the oil companies, particularly on the compensation issue. (Telegram 3110; 888.2553/12-352)

[4] This second meeting was held on Dec. 9. (888.2553/12-952)

[5] See footnote 3, Document 241.

[6] Dec. 6.

Emb informed re press release. Hope FonOff can be urged restrain tone their proposed statement.[7]

ACHESON

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[7] Eden's proposed statement was transmitted to the Embassy in London in telegram 3780, Dec. 5. (888.2553/12-552)

No. 246

888.2553/12-652: Telegram

The Chargé in Iran (Mattison) to the Department of State

TOP SECRET NIACT TEHRAN, December 6, 1952—7 p. m.

2181. Personal eyes only Amb Henderson.

1. I saw Mosadeq this afternoon for one and one half hours and delivered your msg with strict caution re its personal and secret nature. (Deptel 1338, Dec 3) He was obviously extremely fatigued but became more animated during course of conversation.

2. He read message carefully twice and then commented. He finally wrote out hurried reply free translation of which is transmitted in my immed fol tel.[1]

3. Gist of his oral comments fol:

a. He was disappointed and suspicious that the message was one instigated by Brit. Typical of his reasoning was statement, "If this has not been approved by Brit what reason is there for bringing this to me". I did my best to disabuse him of this notion pointing out particularly that you had taken pains in paras 6 and 7 to be entirely fair in your presentation.

b. He said that because of personal and secret nature of message he cld not discuss it with his advisors. Therefore all that he cld say was that if your message was in accord with proposals Iranian Govt made to Brit and was accompanied by twenty million pounds AIOC representatives cld proceed Tehran and subsequent payment of twenty-nine million pounds cld be made after conclusion negots.

c. Without being contentious I attempted to persuade him that plan had merits both in its simplicity and fairness to all parties concerned. He said that his proposals to Brit had been approved by Majlis and therefore cld not be changed.

d. Mosadeq reiterated several times that he had hoped that you wld be able to make arrangements for large scale purchases of Iranian oil by US Govt and US companies. I explained difficulties; PriMin said he aware that you faced extremely difficult task. If you had not been successful he wld understand and hoped that you cld soon return here to help him with problems he faced.

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[1] In this reply, Mosadeq said that Henderson's message would be acceptable only if it conformed with the proposals of the Iranian Government which had been submitted to the British Government. He also stated that the Iranian Government would not deviate from its proposals. (888.2553/12-652)

4. Whole interview was extremely cordial and PriMin explained that he was speaking bluntly because he felt he was speaking with friends.

5. My only comment is that Mosadeq still adamant and fixed in his approach to oil question. However he again definitely stated his willingness arbitrate under all of conditions he has named.

6. It was agreed that we wld answer press inquiries re interview along lines that it had been three weeks since I had talked with him, that I had called to make arrangements for visit Sen Sparkman and Gillette and that other gen matters had been discussed.

MATTISON

No. 247

888.10/12-1052

Memorandum of Conversation, by the Assistant Secretary of State for Economic Affairs (Linder)

SECRET WASHINGTON, December 10, 1952.

Subject: Eximbank Loan to Iran

Participants: Mr. Gaston, Chairman of the Board, Eximbank
Mr. Walter Sauer
Mr. Stambaugh
Ambassador Henderson
Mr. Linder (E)

Pursuant to a decision reached in the Secretary's office this morning,[1] Ambassador Henderson and I called on Mr. Gaston, Chairman of the Board of the Export-Import Bank. The Ambassador led off by explaining that the establishment of credit by the Bank would be of great value in improving our relations with Iran.

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[1] In a memorandum of Dec. 8 to Acheson, Byroade recommended that the Export-Import Bank be informed that the Department had no political objections to the grant of such a loan and that it approved early consideration of the loan on its economic merits. (888.10/12-852)

On Dec. 10, Secretary Acheson met with Ambassador Henderson along with Linder, Byroade, Bonbright, Richards, and Foy D. Kohler of the Policy Planning Staff. Byroade explained that the Export-Import Bank had previously held up implementing the loan to Iran for political reasons, but he now thought that the Bank should be informed that the Department no longer objected to the loan. Linder and Bonbright disagreed with Byroade's recommendation, but Ambassador Henderson supported Byroade. Secretary Acheson instructed Linder and Henderson to discuss the matter further with Herbert Gaston, the Chairman of the Board of the Export-Import Bank. (888.10/12-1052)

He then indicated that he was not expressing the Department's position, which he thought I should undertake to do.

I stated that the Department had given the matter careful consideration and had concluded that we thought it would be extremely helpful if the Board of the Bank would establish a credit of approximately $25 million. The Iranians must of course be made to understand that the establishment of credit did not mean the immediate flow of funds in their direction, and recognize that specific projects would have to be worked out on a basis acceptable to the Bank as well as to their Government.

Mr. Gaston said that at the time the loan was under consideration 18 months to two years ago the Bank was of the opinion that repayment could only be expected if oil was flowing from Iran. He asked what the prospects for a settlement of the dispute were, and wanted particularly to know whether the granting of the loan would help in accomplishing our purpose or retard a resolution of the controversy. I replied that we had been hard at work over a long period of time in an endeavor to work out a deal between the Iranians and the British. Thus far we had not been successful, and while we are not without hope, I could not promise that a settlement could be anticipated within any specific period of time. Responding to his question, I told him that we, of course, had considered whether the opening of a line of credit would help or hurt the prospects of a settlement. We were convinced that it wouldn't hurt, and if our judgment of Eastern psychology was correct, we believe that our relations with Iran would improve if the credit were opened, although we could not go so far as to say that the chance of a settlement would be specifically increased.

Mr. Sauer, who had worked on the loan in the past, said that the negotiations had originally bogged down because the Iranian representatives were never authorized to sign the loan agreement which included specific provisions for some surveillance over and approval of projects. Ambassador Henderson and I recalled that approximately a year ago the Majlis had approved the loan agreement and the reason it had not been consummated was reluctance on the part of the State Department to give its consent.

When the conversation turned again to the security for the loan, I explained that if we could get the oil flowing there would appear to be no question about the desirability of the credit from a purely banking point of view. With this, Mr. Gaston heartily agreed. If, however, no resolution of the oil issue was reached and our fears as to the stability of the Iranian Government were borne out, then it would be some months before the Bank's funds were actually advanced. The Bank could then presumably find some basis for limiting or terminating further advances.

We explained the importance of avoiding any leak of the substance of our discussion and it was agreed that the matter would not be brought up at the next meeting of the Bank's Board, but consideration would be given to raising the matter at the Board meeting on the 18th.[2]

It was clearly understood that if the Bank approved the credit, Ambassador Henderson would be careful to explain to Dr. Mosadeq that no funds would be forthcoming for several months and that a prior condition to the advance of funds would be agreement between the Iranian Government and the Bank as to the specific projects. This might require surveys in Iran to be made by one or two representatives of the Bank, who might be assisted by TCA technicians.

HAROLD F. LINDER

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[2] According to a memorandum of conversation drafted by Linder on Dec. 12, Gaston had, that day, indicated to Linder that he favored proceeding with an Export-Import Bank loan to Iran. It was decided, however, to delay bringing the matter before the Bank's Board for formal action until Henderson returned to Tehran and Secretary of State Acheson returned from Paris, where he was attending the North Atlantic Council meetings. (888.10/12-1252)

No. 248

888.2553/12-1152: Telegram

The Ambassador in the United Kingdom (Gifford) to the Department of State[1]

SECRET LONDON, December 11, 1952—5 p. m.

3288. For Byroade, Linder and Henderson, from Nitze. Met yesterday afternoon with Dixon, Bowker, Maud and other members UK Iranian Oil Committee. I explained our concern with 10 million ton offtake as it affects: (a) Inducement to settlement phase one; (b) Adequacy to meet Iran's econ problems; and (c) Terms on which NIOC wld be free sell to others. I referred our discussion with US Oil Companies operating in ME; our impression they disposed to help in working out problem to meet Iranian problem; and fact that neither companies nor we had firm ideas as to how such program shld be developed. I went on to say there were certain problems which had arisen from these discussions and certain possible lines of approach to these problems which we thought profitable to explore with HMG.

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[1] Repeated by the Department to Tehran as telegram 1445 (888.2553/12-1552); also repeated to Paris for the Secretary of State, who was there attending the Tenth Session of the North Atlantic Council, Dec. 15-18. Regarding these meetings, see the editorial note in vol. v, Part 1, p. 348.

I said if AIOC cld not itself handle offtake of say 20 million tons, and such offtake necessary to solution, ques arose as to whether other companies operating in area cld help. I said these companies all had adequate sources supply and wld want take oil from Iran only if necess to solution; that we felt if US companies asked to cooperate, Shell and possibly the French company shld also be asked; and that some of our companies felt that if cutbacks in other ME production shld be necess, Kuwait shld bear most of burden. UK rep agreed in general with these points.

I discussed problems which we foresaw if NIOC to offer oil freely to all comsrs and in any amts at prices down to price at which AIOC's export subsidiary might be buying from NIOC. I said we concerned that in this contingency NIOC's net return per ton wld remain stable while that of Saudi Arabia, Kuwait and Iran [*Iraq*] wld decline under 50/50 formula, setting up pressures which cld result in spread of nationalization to those countries. I suggested this problem might be met by provision in AIOC contract which related discount to volume and which was protected by most favored nations type of provision. Brit reps agreed this worth exploring but wondered whether wld be negotiable with Iran.

I said we felt it might be negotiable but only if volume contemplated by AIOC contract was in itself adequate give prospect of meeting Iran's econ requirements.

I then discussed problems we foresaw in resale arrangements between AIOC's export subsidiary and other companies which might cooperate in increasing offtake from Iran. I said US companies wld not want this oil; that they probably shld not be asked to pay more for it than AIOC's cost; and that might be worthwhile exploring possibilities of contract which wld be in nature of a "put". In other words AIOC wld have right, on adequate notice, to call on cooperating companies to take delivery specified quantities at its cost. Brit reps agreed this idea also worth further exploration.

I went on to say that we were considering working out arrangements under which our companies and AIOC, together with reps of US and UK Govts might meet together to work out more detailed proposals. This might take some time. In meantime we thought might be advisable make limited amount of econ assistance, unconnected with oil settlement, available to Iran. No position on ques taken by UK reps. It was agreed this ques, as well as ques of how far Henderson might go when returns to Iran in indicating what might be possible under phase two shld be subject of further discussion between Acheson and Eden in Paris. Dixon thought Sunday afternoon might be most convenient time for such discussion.

This morning I went over much same ground with Snow and Rice of AIOC. They raised no new problems beyond indicating some scepticism as to NIOC's ability produce adequate volume and quality. From discussion it appeared they had been thinking of price which, after deducting set aside toward compensation, wld be in line with return elsewhere plus 25 to 30 cents for costs including depreciation.

GIFFORD

No. 249

888.2553/12-1452: Telegram

The Ambassador in France (Dunn) to the Department of State[1]

TOP SECRET PARIS, December 14, 1952—11 p. m.

3475. Following memo handed Dixon, United Kingdom Foreign Office by Nitze today:

Begin Verbatim Text:

Points to be made in discussion with Eden on Iran

1. Background of our discussions with United States majors.

We were concerned that an off-take of ten million tons as contemplated by the British paper would not be enough (a) as an inducement to the settlement of compensation; (b) to meet Irans economic problems and (c) permit the negotiation with NIOC of adequate protective provisions with respect to the sale of the remainder of Iran's oil.

If an off-take of say 20 million tons were necessary to a solution of the Iranian question and AIOC were not in a position to handle so large an off-take by itself, the question arose as to whether other companies operating in the area could help. Discussions with the United States majors confirmed that they all considered their present sources of supply in the Middle East to be adequate and would only want to purchase Iranian oil if it were necessary to a solution. They felt that if they were asked to cooperate, Shell and possibly the French company should also be asked to cooperate, and that if cut-backs in other ME productions should be necessary, Kuwait should bear most of the burden.

In London, Nitze discussed with Dixon and other members of the oil committee and also with the AIOC the technical problems. One related to the type of provision which might be necessary in a contract between AIOC and NIOC to protect by a most-favored-nation type of clause the relationship between discount and volume. The other question related to the terms on which AIOC might resell to others oil which it could not itself market. It may be advisable to work out arrangements under which representatives of AIOC, the United States majors together with representatives of the United States and United Kingdom governments might meet together to work out more detailed proposals with respect to phase two. This might take some time.

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[1] The Department repeated this telegram to Tehran. (888.2553/12-1452)

2. Line which Henderson might take on his return to Iran.

We believe it necessary that Henderson return to Iran within the next week or ten days. We believe we have gone as far as we can usefully go in clarifying what might be within the realm of the possible from our standpoint and that of the British without further clarification of what might be possible in Iran. We think it might be advisable for Henderson to take approximately the following line in talking with Mosadeq:

The United States has clarified its position with respect to the so-called oil blockade and the possible movement of small quantities by United States independents. The United States does not believe any substantial quantity of oil can or will be moved by independents. The United States believes that a substantial movement of oil will only be possible if a settlement of the compensation issues can be worked out on terms which are acceptable both to Iran and to the United Kingdom. If the compensation issue can be gotten out of the way, we believe that two things will be possible: (a) A large and immediate advance to Iran against future oil deliveries. The United States Government would be the source of the funds, but it could be so arranged that the advance was made by AIOC or a subsidiary thereof; (b) that arrangements could be made for a movement on commercial terms of substantial quantities of oil as rapidly as production could be restored in Iran.

On compensation, Henderson would urge on Mosadeq acceptance of the principle of arbitration either by the World Court or some other arbitral body. He would refer to Mosadeq's previous statement that the Court would be free to follow the principles contained in the nationalization laws of any other country in the light of the law under which coal nationalization took place in the United Kingdom. He would take the position that the conditions to arbitration which Mosadeq had laid down could not be accepted.

If it appears from Mosadeq's reaction that he will still not accept the principle of arbitration without conditions but would be prepared to offer, on his own initiative, an adequate lump sum settlement Henderson would explore this possibility. He would make it clear that the British have never acceded to, or expressed a willingness to consider, this type of solution, but that if Mosadeq were to come forward himself with an adequate offer, we would be prepared to take it up with the British.

3. Possible economic assistance to Iran.

In the event Henderson is unable to make any progress with Mosadeq on compensation, the United States feels that it may be wise to buy a certain amount of time and to endeavor to improve the political climate in Iran for an eventual settlement by making limited economic assistance available to Iran unrelated to a settlement of the oil issue.

We understand that Mr. Gutt has submitted to Mosadeq a program[2] involving revised and increased taxes and a reform of their foreign exchange procedures, which should in itself go a substantial way toward alleviating the current budgetary deficit of Iran. We understand that Mr. Gutt believes that with a loan of 30 to 50 million dollars to the Bank Melli, the remainder of Iran's budgetary deficit for a period of 12 to 15 months might be met.

Should Henderson's efforts to persuade Mosadeq to agree to a proper settlement of the compensation issue fail, it would be our intention to make economic assistance of this type available to Iran and we would hope that the British Government would cooperate by helping the British public to understand that this is in furtherance of our common purposes and does not run counter to the obtaining of a proper oil settlement.

End Verbatim Text.

DUNN

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[2] See footnote 3, Document 226.

No. 250

[illegible]: Telegram

The Ambassador in France (Dunn) to the Department of State[1]

TOP SECRET PARIS, December 16, 1952—1 a. m.

3494. Eden and Dixon discussed Iran with Secretary and Nitze this afternoon. Eden had read memorandum handed Dixon yesterday and had had preliminary comments from London. Part one of memo seemed generally acceptable subject to working out details, particularly degree to which Kuwait bears major burden of any cutback. Part two generally acceptable except for implied suggestion that Henderson might urge Mosadeq come forward lump sum settlement. Eden said he had not cleared this type settlement with

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[1] Repeated to London for Palmer.

Cabinet and believed it much less satisfactory their standpoint than arbitration. Clear UK takes very seriously any suggestion of lump-sum settlement primarily because of domestic political consideration. Leathers and Churchill violently opposed.

Secretary finally agreed that: (a) Henderson, if not successful with arbitration approach, wld not solicit lump sum settlement offer from Mosadeq without having first checked back Washington; (b) we wld bear in mind UK desire to talk with us further and possibly attempt discourage us from making such a move but (c) made it clear we might well instruct Henderson explore lump sum settlement either without further checking with them or in spite of their objection.[2] After meeting Dixon and Nitze drafted following rewording of pertinent para in memo given Dixon previous day:

> "If Henderson, after using all possible arguments, finds it impossible to persuade Mosadeq to accept the principle of arbitration without unacceptable conditions, Henderson will report his discussions to Washington before taking further actions. US Govt believes that in this contingency and depending on the nature of the position taken by Mosadeq, it may be advisable to instruct Henderson to explore with Mosadeq the possibility that he offer an adequate lump sum settlement which the US Govt cld then take up with HMG. US Govt understands that HMG have never agreed to consider a lump sum settlement and may wish to discourage US Govt from exploring such a solution with Mosadeq. US Govt, however, believes that if agreement on arbitration is impossible, a lump sum settlement may be the only solution possible and may offer less risks than continued failure to reach a settlement. US Govt may therefore wish to instruct Henderson to explore this possibility with Mosadeq, even though aware of contrary UK views."

DUNN

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[2] On Dec. 16, Ambassador Gifford expressed concern that the Department was considering instructing Henderson to explore a lump-sum settlement with Mosadeq without checking further with the British or in spite of British objections. In view of the fact that Mosadeq would probably reject such an approach to the compensation problem, Gifford did not think it was worth risking the resultant damage to Anglo-American relations. (Telegram 3351, repeated to Paris for Secretary Acheson; 888.2553/12-1652)

No. 251

888.10/12-1852: Telegram

The Acting Secretary of State to the Embassy in the United Kingdom[1]

TOP SECRET WASHINGTON, December 18, 1952—6:23 p. m.

4101. Dept today informed Brit Emb it had decided recommend to Exim Bank favorable consideration Iran request for $25,000,000 loan for econ development. Bank will probably take decision Dec. 22. If approved, Henderson will so inform Mosadeq immed after his return.

Dept officers explained loan was intended improve psychological atmosphere for future oil settlement discussions. Wld not relieve current Iranian econ difficulties since wld not be used for budgetary support and money wld be paid out only in installments as specific projects were approved by Bank. Whole operation could be terminated at any moment. Utilization of funds wld probably be very similar that of present Pt. IV program and loan cld well be regarded as merely form of extension of that program. No early benefit to Iran economy cld be expected.

If Bank decision favorable authorization of loan wld probably become public immediately after info communicated by Henderson to Mosadeq. No prior announcement wld be made.

Brit Emb officer expressed fear news this action by Dept wld be unwelcome in London because Brit Govt wld expect adverse reaction by Brit public and stiffening of Iran public attitude toward oil settlement. Dept officers said they hoped Brit Govt wld make effort cope with Brit public opinion and added they thought effect on Iran sentiment wld be good rather than bad since wld counteract Iran feeling that Western Nations unfriendly.

FYI foregoing was conveyed as for info and without request for Brit comment. However Bank Board meeting on subject was postponed at our request from Dec 19 to 22 in order that Brit might be given few days notice and not feel we had presented them with accomplished fact. End FYI.

Emb need take no action and should not raise subject of loan on own initiative.[2]

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[1] Drafted and signed by Jernegan and cleared with Nitze and Linder.

[2] On Dec. 19 Ambassador Gifford reported that he had taken no action vis-à-vis the British Government concerning the proposed loan. He commented, however, that he saw nothing in the Iranian situation to indicate that granting the loan would so improve the atmosphere that Mosadeq would adopt a reasonable approach to the oil settlement. (Telegram 3430; 888.2553/12-1952)

FYI Nitze was not aware Dept decision re Eximbank loan while in London and Paris.

Bruce

No. 252

888.2553/12-1952 Telegram

The Acting Secretary of State to the Embassy in Iran[1]

SECRET WASHINGTON, December 19, 1952—6:05 p. m.

1497. Eyes only Mattison. Fol memo handed Dept by Brit Emb today:

"FonOff have instructed this Emb to communicate attached annex to State Dept in accordance with Nitze's request to Sir Pierson Dixon. State Dept will appreciate that this is for their own info only and not in any circumstances for communication to Persians.

2. As State Dept are aware, HMG are most anxious that nothing shld be said at this stage which might prejudice their right or that of AIOC to put forward any claims they might wish to make in course of arbitration.

3. FonOff ask that furthest Henderson shld go wld be to speak in terms of paras 2 and 3 of the paper, and if he judged it useful, to say that he believes HMG are aware of Persian apprehensions about a compensation award based on forty-two years which concession still had to run, and that HMG have publicly affirmed that they wld regard Internatl Court as free to decide whether—and to what extent—compensation for loss of concession shld be awarded. Para 4 of paper cld only be used as an expression of Mr. Henderson's personal opinion. FonOff wld have no objection to his pointing out to Dr. Musaddiq, as if on his own initiative, that, once award had been made, it wld be in no one's interest to kill goose that laid golden egg; and he might in same manner like to put into Dr. Musaddiq's mind idea of asking Internatl Court to cover method and period of payment in its award. If, however, this point is not covered in award, it is essential that HMG shld be entirely free subsequently to negotiate upon it and shld not be fettered by a commitment to maintain prosperity of Persia's oil industry.

4. It wld be much appreciated if this Emb cld have opportunity to comment in advance on any communication which Mr. Henderson may be instructed to make to Dr. Musaddiq on basis of attached annex."

Following is annex to preceding memo:

"At recent discussions with Mr. Nitze it was recognized that joint proposals of the 30th August had little chance of acceptance by Persians unless they could be persuaded that submission of question of compensation to International Court wld be advantageous to them and not result in an award which, if implemented, wld cripple Persia's economy for an indefinite period. Her Majesty's Govt have now given further thought to problem and believe that there wld be such genuine benefits to Persia in accepting reference to the Court that, if only she cld be brought to realise them, her reluctance might be overcome.

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[1] The Department repeated this telegram to London on Dec. 22. (888.2553/12-2252) Drafted and signed by Richards.

2. First, an honourable end to dispute wld in itself carry great advantages for Persia. It wld enable Dr. Musaddiq to represent himself to world as having satisfied Persia's natl aspirations by reasonable means and to divest himself of his reputation as reckless fanatic who pursues his idealistic aims with utter disregard for consequences of Persia's economy and reputation. If Persia continues refuse allow the dispute to go to impartial internatl arbitration except on terms quite unfair to AIOC, her attitude will be lasting reflection on her reputation for fair dealing and will strongly suggest lack of confidence in her own case and claims. Furthermore, if she agreed such arbitration, Persia wld again have chance of attracting foreign capital and purchasers to help in developing and disposing of her resources, which will not be case if her refusal to accept arbitration continues. She wld restore her creditworthiness in eyes of foreign investors, in particular the Internatl Bank. Moreover, once impartial internatl arbitration is accepted, Persia will have prospect of substantial purchases of Persian oil for established outlets in world markets. An arrangement on the lines of the joint US/UK proposals wld thus seem to offer an effective method by which large scale operation of Persian oil industry cld be speedily resumed.

3. Secondly, it wld be open to Persia as well as HMG to present her full claims to Court. There is no question of limiting terms of reference to Court in such manner as to prevent Persia advancing any claims connected with oil dispute which she considers to be justified and it is recognized that Persia cld not agree to admit in advance that HMG's claims were in any way justified; nor wld Persia expect AIOC to admit in advance of impartial arbitration the contentions of Persian Govt. Both parties having submitted their claims, it wld be for Court to decide whether and to what extent they are justified. Persians can now no longer doubt Court's impartiality.

4. Thirdly, if in end an award for payment of compensation by Persia is made by Court, it wld clearly be disadvantageous to press for payment in any manner which cld not be borne by Persia, and Court cld be asked to determine manner in which, and period over which, compensation shld be paid. Implementation of Court's award must depend upon Persia's ability to pay and thus upon Persia deriving substantial benefits from a prosperous oil industry.

5. HMG wld be glad to consider further with US Govt how advantages of arbitration cld best be brought home to Persians. However, in any discussion with Persians it wld be most important to ensure that nothing was said which might impair our right to put forward any claims which we wished to Court or to give other countries impression that we were being soft with Persia."

BRUCE

No. 253

888.10/12-1952: Telegram

The Ambassador in France (Dunn) to the Department of State[1]

TOP SECRET PARIS, December 19, 1952—7 p. m.

3582. For the Secretary and Nitze eyes only. Eden asked me to come and see him this morning at British Embassy. Referring to Nitze's report that the Export-Import Bank were reviving the request for $25 million loan to Persia and might take action on Monday December 22, he said that he wished to urge in the strongest manner that any action on this loan be postponed at least for present.

He said that although this loan, as he understands it, would not make any liquid funds available to Persian Government it would be impossible to explain that to British public and general impression would be that this new loan would make it possible for Mosadeq to make more rigid his position and thus to hold out for the present in any negotiations which might be undertaken as a result of recent Anglo-American conversations.

He said further that if this loan were acted upon favorably he would be presented with the question whether he had been informed of this possibility before action was taken and, if so, what his reaction had been. He said that he would have to announce that he had urged most strongly that loan not be granted at this time, and result would be to cause some questioning as to whether we were really working together on proposed plan.[2]

DUNN

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[1] The Department repeated this telegram to London on Dec. 20. (888.10/12-1952)

[2] Telegram 4149 to London, Dec. 20, reads in part as follows: "Afternoon Dec 19 Steel and Burrows presented arguments to Dept re Exim Bank loan Iran similar to those made by Eden (see Paris 3582, being rptd Lon by Dept). Decision made to cancel Mon Dec 22 mtg of Bank and defer consideration loan. Henderson will carry through effort to persuade Mosadeq accept principle arbitration as contemplated Paris discussion with Eden." (888.10/12-1952)

No. 254

888.10/12-2252

Memorandum by the Director of the Policy Planning Staff (Nitze) to the Secretary of State[1]

SECRET WASHINGTON, December 22, 1952.

As was decided at the meeting Friday afternoon on Iran, I called in Burrows and told him (a) that it had been decided to cancel the Eximbank meeting scheduled for Monday and to defer consideration of an Eximbank loan to Iran; and (b) that we desired to receive as early as possible any further U.K. views regarding a lump-sum settlement in the contingency that Henderson failed in his efforts to secure acceptance of the principle of arbitration without unacceptable conditions.

On Saturday morning, Burrows came in to see me to say that he had received instructions from London to tell us (a) that Mr. Eden deeply appreciated Mr. Acheson's decision to defer consideration of an Eximbank loan; (b) that they would send us their views with respect to a lump-sum settlement; and (c) that they hoped we would consult with them again before taking favorable action on financial assistance to Iran.

On Saturday afternoon at 4:00 o'clock, Burrows came in to see me again to give me the attached *aide-mémoire* containing the U.K.'s views with respect to a lump-sum settlement.[2] I pointed out to Burrows that the arguments advanced in the *aide-mémoire* were similar to those made by Mr. Eden in Paris. As to their first point, it seemed to suggest that any variation from the Truman-Churchill joint proposal would be "to capitulate to Dr. Mossadeq". I pointed out that an offer by Dr. Mossadeq of an adequate lump sum could similarly be viewed as a capitulation on his part. Clearly if a settlement were to be arrived at, some ground would have to be given on both sides. As to their second point, I said that were not asking the British at this time to agree to a lump-sum settlement; that if Dr. Mossadeq were to come forward with an offer of his own in an adequate amount this could hardly lead to trading down to a "derisory sum", and that we were as much interested as the British in avoiding an inadequate sum which would have the effect of encouraging nationalization in other concession areas. As to the third point, I said we understood the political difficulties in the U.K. of agreeing to any lump sum, but that we felt the political difficulties in Iran in accepting arbitration with no restrictions were, perhaps, even greater, and that if a solution were desired the Iranian political problems must also be taken into account.[3]

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[1] At the top of the source text appears the following handwritten comment: "I agree with this paper including the last paragraph. DA."

[2] Not printed. Burrows handed this *aide-memoire* to Nitze on the afternoon of Dec. 20. The *aide-memoire* announced that Eden and his colleagues had considered Acheson's suggestion of a "lump-sum" settlement on compensation, but strongly objected for the following three reasons: (1) a lump-sum settlement would represent an Anglo-American capitulation to Mosadeq because it would be an abandonment of the Truman-Churchill proposal of having Mosadeq accept compensation through impartial arbitration; (2) to settle compensation without resort to impartial arbitration would leave the British with no firm ground for negotiations with the Iranians and would start a process of extravagant Iranian counter-claims if the idea of lump-sum was introduced; (3) the principle of impartial arbitration had enormous advantages from the points of view both of British public opinion and of safeguarding concessions in other foreign countries. The *aide-memoire* also reminded Secretary Acheson that President Truman had agreed on Aug. 25 that the International Court of Justice should be the tribunal on compensation, and that the British Government had not agreed that Ambassador Henderson should give any hint to Mosadeq about a lump-sum settlement during his forthcoming exchanges with Mosadeq. (888.10/12-2252)

It seems to me that a more formal reply to the British *aide-mémoire* may be advisable.[4]

PAUL H. NITZE

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[3] On Dec. 24 Ambassador Gifford reported that Eden told him the previous day that the British Cabinet had reexamined the question of lump-sum compensation and had reiterated its opposition to Henderson exploring the idea with Mosadeq, even if he turned down arbitration. (Telegram 3529; 888.2553/12-2452)

[4] At the top of the source text appears the following additional handwritten comment: "Nitze informed". According to Department of State files, Nitze, on Dec. 23, drafted a proposed *aide-memoire* to be used as a reply to the British note. He revised this draft on Dec. 30. Neither this document nor a substantially altered version drafted on Jan. 7, 1953, by Nitze was ever submitted to the British Government. Nitze, according to a handwritten statement on the Jan. 7 draft, handed a copy of this version to the appropriate officials in NEA for use at their discretion. No record exists that NEA ever gave this document to the British. Various drafts of response composed by Nitze, are in PPS files, lot 64 D 563, "Chronological 1952 Jan-Dec", and "Chronological 1953".

No. 255

888.10/12-2752: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET NOFORN TEHRAN, December 27, 1952—3 p. m.

2430. 1. During my conversation of December 25 with Mosadeq he inquired regarding status Export-Import bank loan. I told him I had had several talks with officials of Bank regarding loan and had learned that they were hesitating to go through with loan primarily because they thought they might be charged with extension of loan to a government which had no way in sight of refunding it. These officials had pointed out that Export-Import Bank was supposed to make loans only when borrower was clearly in position to repay. Loan had been negotiated at time Iran deriving revenue from oil. At present without any oil revenue in sight it might be hard for bank to explain how Iran would be in position to repay.

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[1] Repeated to London.

2. I told Mosadeq I had suggested to Bank that Iran had sufficient oil resources to refund loan many times larger than $25,000,000; that at some time or other if Iran survived as an independent country this oil bound to find its way to world markets and that when it did Iran should be in position to pay back what it had borrowed; and that if Iranian oil would not begin to flow Iran might well lose its independence and that such an eventuality would be so disastrous to US and free world that failure of Export-Import Bank to receive repayment of loan would be of little significance. I added that Bank officials had seemed most sympathetic and sincerely desirous of helping Iran. I understand that they intend renew matter for purpose ascertaining if some way could be found in framework Bank's charter to extend loan in existing circumstances. I was hoping that they would find it possible to resume discussions with Iran regarding loan in near future. I told Prime Minister, however, that he should not be too optimistic regarding outcome of Bank's reconsideration of loan since scope of Bank's transactions was rather severely restricted by legislation which had created it. I told him, however, that I was confident that decision of Bank would be based on purely banking and not on international political factors.

HENDERSON

No. 256

888.2553/12-2952 Telegram

The Secretary of State to the Embassy in the United Kingdom[1]

TOP SECRET WASHINGTON, December 29, 1952—6:27 p. m.
PRIORITY

4273. Pls communicate fol msg to FonOff and to Eden personally (re Tehran tel 2425[2] and London tel 3539[3]):

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[1] Repeated to Tehran. Drafted by Jernegan; cleared in draft by Nitze, Linder, Metzger, Richards, and Raynor; and approved by Richards.

[2] Telegram 2425, Dec. 26, provided the information transmitted in telegram 4273 to London. (888.2553/12-2952)

[3] In telegram 3539 Ambassador Gifford asked the Department to inform him as quickly as possible regarding the extent to which he or Embassy officials should inform the Foreign Office of the contents of telegram 2425. (888.2553/12-2952)

After long and difficult conversation with Mosadeq Dec 25 Henderson succeeded in obtaining Mosadeq's tentative agreement to arbitration without his previous restrictions as to terms of reference to arbitration for determining compensation. Henderson did not at any time suggest any other method for settlement compensation. He outlined plans for Phase Two movement of oil, including possible participation Amer companies to lift any quantity necessary to bring total to satis level, which he said we thought wld be in neighborhood 20 million tons. Made clear companies wld be reluctant, since all majors had adequate oil resources and wld face financial and polit problems if they bought oil from Iran, but he believed they wld coop if settlement reached on compensation and satis commercial terms agreed upon. Discussed tentative US plans for advancing funds to meet current Iranian budgetary and development needs provided oil settlement reached, saying US tentatively prepared buy oil and products to value approx $100 million. Payment cld be made immed and oil delivered to US Govt over period years.

Mosadeq suggested US Govt shld buy oil at once without awaiting settlement, saying this wld create atmosphere conducive to settlement. Added with great emotion that if US cld not aid Iran until oil settlement reached Iranian situation was desperate. He did not believe Brit wanted settlement but instead wld find pretext after pretext to postpone it. He thought Brit Govt conspiring to overthrow present Iran Govt. In light Henderson's exposition he must immed inform Iran people they cld expect help from no western source and must look only to themselves to prevent national bankruptcy and preserve independence.

Henderson replied US Govt cld not possibly buy Iran oil until matter of compensation had been disposed of. US public wld consider that to do so wld be pursuing policy of undermining sanctity intl contracts. Furthermore cld not obtain coop US and intl business community. Dept was convinced Brit Govt as well as Iran Govt desired early settlement. Instead of hesitating because of suspicions of Brit good faith Mosadeq shld concentrate on compensation question.

Mosadeq said he considered it useless search for further formula re terms of reference in matter arbitration. He had already made number suggestions which for one reason or another had not been acceptable to Brit. Referred his past statements offering settle compensation on terms no less liberal to AIOC than those on which compensation had been given owners of property nationalized in other countries. Henderson pointed out those offers all seemed to have strings attached, notably that they referred only to compensation for loss of physical property. As matter principle Brit cld not accept terms reference which limited compensation to loss as result confiscation physical property in Iran. Position Brit on this was backed by virtually entire business world.

Mosadeq insisted he had not intended attach strings. In any case he was still prepared to refer to Intl Court for arbitration the matter of determination of amt of compensation owed by Iran to AIOC due regard being given to Iranian counter claims. Only terms of reference wld be that Intl Court in determining amt of compensation due shld base itself on any law carried out by any country for nationalizing its industries which might be agreed to by AIOC.

Henderson asked if in making this offer Mosadeq realized that Brit Coal Industry Nationalization Act had provided for compensation for loss of future profits. Mosadeq replied that if Brit law provided for compensation for loss of future profits and if Intl Court shld decide to use that law as basis for determining amt of compensation due he wld not object.

He wld agree to such terms reference provided US wld simultaneously make arrangements to purchase Iranian oil to amt of $100 million and wld make this amt at once available to Iran Govt. Purchase cld be made through any company US Govt might designate and wld be FOB Iran port. Price cld be fixed on basis Gulf price less such discounts as US Govt might consider[4] (info we have from private source tends confirm this). We hope therefore that Brit Govt will give it immed and favorable consideration.

There are of course certain gaps and possible difficulties. Those which occur to us include:

1. Mosadeq might change his mind. We believe this danger can be reduced by prompt reply;
2. While Mosadeq did not definitely agree to negotiate Phase Two commercial agreement with AIOC or consortium after signing of arbitration agreement, he did not comment negatively. We are authorizing Henderson in his discretion attempt clarify this point;
3. According to Henderson, Mosadeq envisages that arbitration shall be between Iran Govt and AIOC, not Brit Govt. As we interpret it, statute of Intl Court does not permit private company to be party to case before it. Therefore it wld not be legally possible to meet Mosadeq's exact terms. Difficulty might be met by various means which we wld wish to explore with Brit and Irans. It might also be useful consult Court itself informally. Two alternatives which occur to us are:

   (a) Arbitral agreement between Iran Govt and Brit Govt wld make Brit Govt nominally party to case but wld make clear by its text that AIOC was real party at interest;

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[4] Due to clerical error, portions of the text were omitted. For the part of the telegram that is missing, see telegram 4291, *infra*.

(b) Arbitral agreement between Iran Govt and AIOC wld provide that Court shld appoint panel of three, five or other mutually agreeable number of arbiters.

4. Mosadeq insists upon advance of $100 million from US Govt promptly after agreement on arbitration and wld be, we are sure, unwilling have advance contingent on, or await, conclusion long-term commercial sales agreement. We are confident we can make money available promptly. (Although we may find it desirable make payments in installments.) We believe price and other terms can be so arranged as to avoid embarrassment to commercial negots. In any case, we are convinced commitment that there will be prompt advance some substantial amount money is essential "bait" to get Mosadeq agreement to arbitration and that undue delay after date of signing of arbitral agreement wld cause whole opportunity to be lost.

We consider it vital that Brit move promptly on two lines: first, to consider terms of reference for arbitration which wld be satis to them and wld meet difficulty indicated para 3 above, and second, to prepare for early negot of commercial agreement for purchase Iran oil.

Meanwhile we think it most desirable that we be able to convey immed to Mosadeq Brit acceptance in principle of his offer and willingness promptly to begin consideration details. We are authorizing Henderson to say offer being transmitted to Brit and also being carefully studied here.

We can hardly stress too strongly how important we think it is that Brit and we take advantage of change in Mosadeq's attitude and that there be no unnecessary delay. Also, we wish to emphasize importance of absolute secrecy.

Byroade arriving Dec 30 wld like join Gifford in discussing this whole matter with Brit officials.[5]

ACHESON

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[5] Byroade's principal reason for going to London was to conduct a series of talks with the British to explore ways whereby the British could conclude a satisfactory agreement with Egypt concerning the future use of the Suez Canal base. For documentation regarding U.S. concern about the Anglo-Egyptian controversy with regard to the Suez Canal, see vol. IX, Part 2, pp. 1743 ff.

No. 257

888.2553/12-3052: Telegram

The Secretary of State to the Embassy in the United Kingdom[1]

TOP SECRET WASHINGTON, December 30, 1952—11:00 a. m.
PRIORITY NIACT

4291. Due clerical inadvertence two paras omitted from Deptel 4273 rptd info Tehran 1567. Add final word "appropriate" to para 7 of msg. This para will then begin with words "He wld agree" and end with words "US Govt might consider appropriate".

Fol two paras shld be inserted immed fol foregoing:

"Henderson said he did not know whether this offer wld be considered satis basis for US action but wld transmit it to Wash. Mosadeq reiterated his belief Brit Govt wld reject it. Instead of prompt acceptance there wld be protracted negots and premature publicity which wld make his position difficult. Said time was of essence; he cld not hold offer open indefinitely.

Despite Mosadeq's continued suspicious attitude, we consider this offer encouraging. It gets over principal difficulty which has been blocking agreement on arbitration, namely, question of taking future profits into consideration. It also seems to show that Mosadeq has dropped his insistence on advance payment of 49 million pounds claimed to be due Iran."

Msg continues "(info we have from private sources)."[2]

ACHESON

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[1] Repeated to Tehran. Drafted by Stutesman and approved for transmission by Richards.

[2] On Dec. 30 Ambassador Gifford reported that he had a subordinate deliver the message contained in telegram 4273 to the Foreign Office with the request that it be brought to Eden's attention at the earliest possible moment. Gifford did not indicate if those portions of the text provided in telegram 4291 were included in the note sent to the Foreign Office. He did inform the Department, however, that several changes had been made in the Department's text in the interests of clarity, tone, and precision. (Telegram 3583; 888.2553/12-3052)

No. 258

888.2553/12–2952 Telegram

The Secretary of State to the Embassy in Iran[1]

TOP SECRET WASHINGTON, December 29, 1952—6:27 p. m.
PRIORITY

1568. In ur discretion you are authorized communicate all or part of fol to Mosadeq (reurtel 2425):[2]

1. Dept is encouraged by report ur conversation with him Dec 25. We believe his offer is constructive step and it is receiving our careful consideration.

2. We are communicating substance of offer to Brit. Byroade left for London today in connection various problems. This will afford him opportunity discuss Iran oil situation with Brits.

3. In absence of Brit reaction we cannot of course go farther into substance of ques. We do foresee however possible technical difficulty in suggested arbitral procedure if Iran Govt insists that Brit Govt must not be party to arbitration. Statute of ICJ provides that only states may be parties to proceedings before court. Therefore we do not believe AIOC cld be party in its own right; Brit Govt wld have be nominal party to proceedings before Court. We are studying matter and if Brit are willing consider Mosadeq's offer will discuss this particular problem with them as well as with Irans. There might also be informal consultation with ICJ itself. On basis preliminary study we see two possible alternatives:

a) Arbitral agreement might be drawn between Iran Govt and Brit Govt in such way as to make Brit Govt nominal party before court but wld make plain by its contents that AIOC is real party at interest and that court not assuming jurisdiction except to extent specified by parties, or

b) Arbitral agreement between Iran Govt and AIOC might provide that court shld appoint panel of three, five or other mutually agreeable number to act as arbitral tribunal. In this case of course Brit Govt wld not appear at all.

We do not know whether either alternative wld be acceptable to Brit. (FYI If you have not discussed these technical difficulties with Mosadeq, we believe you shld do so in order to determine how he thinks problem can be handled. In discussing matter you cld pt out these difficulties arise because of nature of statute of court which cannot be changed by the parties. If Mosadeq is concerned that presence of UK Govt as party to arbitration proceedings might derogate from earlier ICJ ruling that dispute not between Govts, you can pt out that this can be avoided by proper drafting of terms of reference for arbitration. End FYI)

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[1] Repeated to London. Drafted and signed by Jernegan and cleared with Secretary Acheson, Richards, Nitze, Linder, Metzger, and Bonbright.

[2] See footnote 2, Document 256.

4. Dept has noted that you discussed at length possible means of resuming commercial flow of oil from Iran once compensation question settled and that Mosadeq did not appear see serious objections to outline you presented. It wld be helpful to us to know definitely whether he wld in fact be willing to enter into negots with subsidiary of AIOC (with or without assoc of Amer or other companies) as soon as agreement had been reached on method of determining amount of compensation. We consider resumption of substantial oil sales important because

a) it is only means by which compensation can be paid, and
b) it is essential to receipt by Iran of adequate revenues to meet current finan situation, which is our primary interest.

It is understood that there wld be no question of a monopoly or near-monopoly and, as you have already explained, it is unlikely that AIOC and other majors wld be interested in quantities exceeding 20 million tons yearly.

(FYI It is our present feeling that we shld not push Mosadeq to sell greater quantities than he wishes so long as amount is large enough to assure compensation and some net revenue to Iran Govt.

From our pt of view, if Brits cld be persuaded and Iran wld agree, we wld much prefer have commercial negots proceed simultaneously with negots of arbitral agreement. This wld reduce objection to our making advance prior consummation of commercial deal for future flow of oil. In this connection, if 100 million advance is to be undertaken prior conclusion of commercial negots, Dept considering desirability extending payments against advance over period of time. In ur discretion you may wish avoid permitting Mosadeq assume total advance will be made in one lump sum immed after agreement for arbitration. End FYI)

5. We agree entirely on importance preserving secrecy.

ACHESON

No. 259

Editorial Note

On December 27 and 30, the United States Director of Technical Cooperation for Iran, William E. Warne, and the Prime Minister of Iran, Dr. Mohammad Mosadeq, exchanged notes establishing a Joint United States-Iranian Economic and Social Development Commission on January 1, 1953. Under the terms and conditions contained in these notes, the Government of the United States agreed to make available to the Government of Iran up to $20 million for technical and economic aid during the United States fiscal year ending June 30, 1953, together with those funds already made available by the Technical Cooperation Agreement which had entered into force on January 20, 1952 (see footnote 4, Document 141). Documentation regarding the negotiation of this agreement is in file 888.00 TA.

No. 260

888.2553/12-3152: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET PRIORITY TEHRAN, December 31, 1952—6 p. m.

2485. Dept eyes only Secretary and Jernegan.

1. Upon receipt Deptel 1568, Dec 29, I requested another interview this morning with Mosadeq. Our conversation again lasted nearly three hours. He was obviously ill and his physical condition added somewhat to my difficulties.

2. I first discussed with him technical difficulties re arbitral procedure which would be encountered in proceedings before ICJ if he continued to insist that AIOC be other party to arbitration. I showed him copy statute of ICJ providing that only states may be parties to proceedings before court. I told him matter had not as yet been discussed with British Government which had hitherto insisted that it rather than AIOC be other party to arbitration. I then suggested two alternatives listed as (a) and (b) in reftel.

3. Mosadeq said he quite aware Article 34 of Charter provided "only states may be parties in cases before the court". He had never contemplated that formal juridical case be presented to court. His idea was that Justices who were members of ICJ could form an arbitration panel composed of themselves and that this panel as board of arbitration rather than as court would consider question compensation. He hoped that court as contribution to international comity would not object to its Justices forming board of arbitration. In response to my question he said that all Justices should be offered opportunity to sit on panel but that if any of them did not desire to do so remaining Justices would be considered as full panel. If ICJ found some technical or other objection to permitting its Justices to act in such capacity his alternative sug-

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[1] Transmitted in three sections; repeated to London eyes only for the Ambassador and Byroade.

gestion would be that Mr. McNair, British Justice, and Mr. Sanjabi, Iran Justice, should form nucleus of an arbitration board of three and that they would agree upon third member. He said that he would prefer arbitral agreement be signed by AIOC but he would not seriously object if British Government would sign agreement in capacity of representative of AIOC. I asked whether it would not be possible for British Government to appear before ICJ itself in capacity of government acting as representative of one of its nationals. He replied he considered two alternatives which he had suggested to be fair and did not care contemplate other alternatives. In order that his position might be clear he would write down what he had in mind. He thereupon scribbled number of sentences in his notebook in Persian which he permitted Saleh, my Iran assistant, to copy. Translation of what he wrote is as follows:

> "Either all the judges of the International Court of Justice who are members of the court at the time of the signing of the agreement are appointed as arbitrators, or only the two judges who were members of the court when the Anglo-Iran case was heard, namely McNair and Dr. Sanjabi, to be appointed by both parties as arbitrators. These two arbitrators will appoint a joint arbitrator.
>
> The agreement may be signed by the British Government representing the company.
>
> In case McNair should be the President of the ICJ and he should preside over this arbitral tribunal Iran Government would have no objection, and it would even be prepared to give up the idea of sending it special judge who had been appointed at the time the Anglo-Iran case was before the ICJ.
>
> As soon as the arbitral agreement is signed the American Government or any American firm shall pay $100 million and shall purchase oil afterwards until such time as its account is settled. In the event Iran should be found by the arbitral tribunal to be owing the former company, Iran shall pay 25 percent of the proceeds of oil that she would sell abroad every year until this debt is entirely paid off.
>
> If any member of the ICJ, who should be a member at the time of the signing of the arbitral agreement, should leave the court, it will still be he himself who shall act as arbitrator, not his successor.
>
> These conversations shall not be valid until they have been approved by the Majlis".

4. After I had read what Prime Minister had written I said I would like to raise several points. In first place it seemed to me unwise to state in arbitral agreement how such compensation as may be found due was to be paid. Might not it be better to allow arbitration panel to determine method of payment? Mosadeq replied vigorously in negative. He said manner payment must be within framework national law and that should be understood in early stages negotiations. He said he was willing as alternative to

agree that compensation be paid in oil valued at "Gulf" prices to be delivered in five annual installments. It my understanding that he meant Persian Gulf prices although during our conversation he made one reference to "Gulf of Mexico" prices. I told him I thought it would serve no purpose to suggest that compensation be paid with oil value at Gulf prices because neither AIOC nor any other large company would be willing purchase oil at those prices without heavy discounts and that by placing such high value on oil delivered as compensation Iran wld be cutting down materially amount of compensation. He said that in that case he would allow 25 percent clause to stand.

5. I then pointed out that his formula had made no reference to conclusion of purchase contract with some oil company such as subsidiary AIOC or national company including AIOC which would assure Iran minimum amount of annual oil sales over fixed term of years. Prime Minister said he had been giving this matter deep thought and had decided he did not wish to commit himself at this time to enter into negotiations with AIOC for sale of Iranian oil. After compensation problem had been disposed of by reference to arbitration and after he had received 100 million dollars from US Government for oil to be delivered in accordance with terms to be agreed upon between Government of Iran and Government of US, either direct or through some company, he would then decide through what channels Iran would dispose of its oil exports. I was somewhat taken aback at this statement. I said that although during our previous conversation he had not definitely agreed to enter into negotiations with AIOC or some subsidiary of AIOC he nevertheless had seemed to be in general agreement with US suggestions for disposal Iranian oil as outlined by me. On various occasions he had told me that if arbitration question was once disposed of he would have no objection to entering into negotiations with AIOC direct for sale of Iranian oil provided it was understood that such negotiations would not mean that AIOC be given monopoly. Was I to understand that he had now changed his mind? Mosadeq replied he now feared it might be dangerous to trust AIOC to purchase bulk of Iranian oil. There danger that UK in order bring pressure on Iran might at some time or other cause AIOC cease purchasing Iran oil with disastrous results for Iran. If AIOC would be willing to deposit 200 million dollars in some neutral place which would be forfeit if it should fail to live up to its contract with Iranian Government he would consider selling any amount to AIOC. I told him that if AIOC entered into contract with him it would of course be liable for damages for breach thereof. Neither AIOC nor any other company would be willing to allow 200 million dollars to remain idle merely so it could serve as guarantee fulfil-

ment of contract. Such transaction unprecedented in international foreign trade. If UK and US should agree to refer question of compensation to arbitration they also would have no guarantee that Iran would abide by decision of arbitration panel. They wld have to trust Iran's good faith. Similarly, Iran must place some trust in good faith of UK if satisfactory sale contract for Iranian oil was to be negotiated. Prime Minister said he could not promise at this time to enter into negotiations with AIOC or any other company. I asked him if UK in good faith and with goodwill should agree to terms of arbitration along lines suggested by him would his attitude towards AIOC be likely to change in this respect. He said he could not make any promises at this time. He would see how situation looked after compensation agreement had been entered into.

6. I reminded Prime Minister during our conversation December 25 I had outlined to him Four Point program consisting of (a) compensation, (b) sale of Iranian oil, (c) Iran to continue as master of its own oil industry, and (d) payment in advance of $100 million on oil to be purchased by US in order to enable Iranian Government meet its current urgent needs. These four points were related to one another. In contemplating advance of $100 million US Government was prompted by desire to see oil dispute between UK and Iran settled and to see Iran once more selling oil in foreign markets in sufficient quantities to enable it to meet its budgetary and other needs. Iran by refusing simultaneously take steps to assure sale of its oil abroad was distorting program which US Government had in mind. Prime Minister said it seemed to him US Government was worrying too much regarding future welfare Iran. What Iran needed now was $100 million and with that it could carry on until it could work out arrangements for substantial sales oil. He did not believe AIOC really wanted buy Iranian oil. If it did Iran would be glad to sell it oil on same terms as it would any other foreign company. He did not at this time wish, however, to take any action or give any promise which might place AIOC in favored position. I pointed out that by force of circumstances AIOC was already in favored position as purchaser. It alone of all oil companies of world already had at its disposal transport and marketing facilities for handling large quantities Iranian oil. It could also sell oil in sterling countries which did not have funds to purchase dollar oil. Mosadeq continued to insist that at this juncture he would give no commitment re entering into long term sales contract with AIOC or AIOC subsidiary. He said he hoped US Government would not try bring pressure on Iran to sell oil to AIOC by refusing otherwise to buy from Iran $100 million worth of oil upon conclusion of arbitration agreement.

7. I told Mosadeq that it was with great reluctance that I was presenting his present attitude to my government. For me to do so would strengthen arguments those groups in US and UK who maintained that he changed his mind so frequently it was almost impossible to deal with him. Furthermore his attitude would make it more difficult for British to make concessions which would be necessary if his ideas regarding terms of reference for arbitration would be accepted by them. His attitude, I felt, would prolong negotiations. I hoped that he would think matter over and change his mind again before our next conversation, this time in helpful way. It seemed to me that he had taken a constructive attitude regarding arbitration and I hoped he would do same regarding sale of oil. He should understand that I was not pressing him in interest of AIOC. AIOC could do nicely without Iranian oil. My concern was for Iran which should sell at least 20 millions tons a year if it was to enjoy real prosperity.

8. Mosadeq said he was afraid in any event considerable time would elapse before an agreement could be made regarding oil. Perhaps US Government in order tide Iran over this period sell Iran 120,000 tons of sugar on credit which would be repaid later in form of oil or proceeds from oil. Iran used 200,000 tons of sugar annually, it produced 80,000 tons; its import needs were 120,000. With this importation of sugar Iran could carry on for a month or two until oil question could be solved. British would not be so much offended if US would assist Iran in this way as they would be if US would make direct financial loans.

9. I said that although I doubted that my Government could enter into transaction this kind, I would pass along his suggestion. So far as British Government was concerned it knew enough about financial matters to be able understand that US sale of this amount of sugar on credit to Iran was tantamount to giving budgetary assistance.[2]

HENDERSON

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[2] On Dec. 31 Ambassador Henderson observed that although he was disappointed with the stance Mosadeq had adopted, he was not surprised that the Prime Minister had reversed his position in several respects. Henderson viewed this development merely as a temporary setback and recommended that the United States urge the British to proceed with arbitration of compensation without insisting on negotiations for a commercial sales contract, while the United States went forward with plans to advance Mosadeq the $100 million. (Telegram 2486; 888.2553/12–3152)

No. 261

888.2553/1–153 Telegram

The Ambassador in the United Kingdom (Gifford) to the Department of State[1]

TOP SECRET PRIORITY LONDON, January 1, 1953—11 p. m.

3611. From Byroade. Holmes, Palmer and I met this afternoon with Dixon, Maud and other Foreign Office officials. I felt it only fair to inform British re Henderson's latest conversation with Mossadeq, particularly as one subject of discussion was mechanics of advance on our part through AIOC. Unfortunately, third part of Tehran's 2485, December 31, has not been received, so I was only able to inform them of first two sections. In doing so, I cautioned that whole message not yet available and I therefore hoped that apparently negative line which Mossadeq has taken re sales contract with AIOC would not affect adversely UK thinking re arbitration aspects and that we could continue examine this point on basic assumption that something satisfactory could be worked out on sales aspect. I particularly stressed encouraging portions above reference telegram re Mossadeq's apparently flexible and reasonable approach to form of arbitration.

Following points emerged during course of conversation:

1. *Arbitration.* British legal advisers doubted ICJ justices could form arbitration panel as proposed by Mossadeq (paragraph 3, Tehran's reference telegram), doubting judges would be willing this circumvent clear intention Article 34 of Charter, as well as provisions of Article which prohibits them from engaging in other business. Moreover, they did not like suggestion that if certain judges did not wish participate in proceedings, they might drop out, since they feared this might result in unbalanced tribunal if judges who might be favorable to them did not feel they could participate. They reiterated, however, that they would be willing take any form of impartial arbitration. Regarding terms of reference, they said they were not clear precisely what Mossadeq had in mind. If his thought was that ICJ should determine which nationalization law to apply, as he seemed to infer at one point in conversation reported Tehran's 2425, December 26,[2] they would consider this dangerous principle as court conceivably would apply some polish act of a confiscatory nature. On the other hand, if Mossadeq's thought was that question of nationalization law to be applied should be subject agreement between UK and Iran, then idea would not be unattrac-

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[1] Repeated to Tehran eyes only for Henderson.

[2] See footnote 2, Document 256.

tive to them. HMG and company lawyers examining this possibility as rapidly as possible are including possible applicability UK coal nationalization law. Before developments reported Tehran's 2485,[3] they had considered possible desirability asking us to try to ascertain more precisely Mossadeq's ideas as to who would decide what nationalization acts should be applied. Now, however, they felt that until we have had opportunity consider latest developments, it would be unwise make further approach along this line. Meanwhile, they would continue urgently to look into matter, but implications were such that they must take sufficient time to reach considered decisions. British on whole I believe accept my view that matter compensation can now be solved.

2. *Commercial agreement act.* British interpretation Mossadeq's apparent refusal consider commercial agreement with AIOC as indication that his only real interest was in getting his hands on $10 [*$100*] million from US Government. They felt he undoubtedly figured it would take some time before arbitration award was reached and that agreement to arbitration was cheap price to pay for advance of this attractive sum. They expressed apprehension that if $10 [*$100*] million were made available to him, incentive would be lost to conclude commercial agreement. They thought, therefore, that way in which advance was handled was of crucial importance. I stated that I felt analysis somewhat different and that possibility of sales contract with firm other than AIOC might be predominant factor. I gave them fill in on Marcus deal.[4]

I gave them copy of Department's memo contained Deptel 4337, December 31,[5] stressing its tentative nature pending conversations in Iran. British expressed concern re following two points:

(a) Commencement of monthly installments of $10 million after initial advance of $30 million did not appear to be tied to conclusion commercial agreement, but merely to agreement between DMPA and NIOC re provisional schedule of shipment. They therefore felt there was danger that incentive to Mossadeq to conclude commercial arrangement might be removed and felt that two points should be tied more closely together.

(b) Preliminary agreement re price on basis US Gulf posted price less 35 percent might well be prejudicial to commercial negotiations on price. They recalled that US and UK have long been in agreement that price formula should not be more favorable to Iran than other concession countries were receiving. While it is impossible to predict effect of this particular price formula prior to its introduction, they felt that mention of any price at all could not help but be prejudicial to commercial negotiations. They asked whether it would not be possible for DMPA to negotiate contract (and make immediate advance) which would leave question of price open until commercial negotiations had been completed. We said that we were doubtful that it would be legally possible for DMPA to negotiate a contract of this kind, but that we would inquire from Department.

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[3] *Supra.*

[4] Marcus and Aria, who represented a small company known as the United States Marketing Council, Inc., proposed a plan to Department officers on Dec. 26, 1952, to solve the Iranian oil crisis; see footnote 4, Document 266. A memorandum on this subject by Assistant Secretary of State Byroade is in file 888.2553/12-2752.

[5] Not printed. (888.2553/12-3152)

I stressed importance which we attached to AIOC participation in moving Iranian oil and my disappointment at Mossadeq's apparent unwillingness negotiate with AIOC. I asked how long British felt it would take AIOC to negotiate contract assuming Mossadeq's reluctance could be overcome. British replied they were unable to say, since they felt amount of time involved would depend largely on Mossadeq and more particularly on amount of DMPA funds we advance to him.

[3.] I would appreciate Department's and Tehran's urgent comments on foregoing, particularly on following points:

(a) Any further indications which Henderson may have as result his conversations which might indicate whether Mossadeq has in mind that Court or two parties in agreement should determine nationalization law to be applied by Court.

(b) Whether Department intended in paper transmitted Deptel 4337, December 31 that advance of $10 million monthly installment should be tied to conclusion commercial sales contract.

(c) Whether DMPA could legally negotiate contract with NIOC which left open question of price pending conclusion commercial sales contract.

Am seeing Dixon again at 3 o'clock (London time) tomorrow afternoon to exchange information re further developments.

British seemed genuinely appreciative of manner in which Henderson has handled conversations.

While I have not as yet seen remainder Tehran's 2485 feel key problem is manner in which we reply to Mossadeq re his refusal to face up to immediate negotiations on sales contract. Impossible as yet determine British reactions but am somewhat fearful they might find Iran refusal deal with AIOC not as worrisome to them as to us. Possibility of compensation agreement without early sales contract undoubtedly creates dangerous possibility use of Iranian oil in manner which might upset entire international oil structure. On other hand, US and UK combine in moving oil we have International Oil Corporation in effect regardless of what we call it and to openly form a joint company might solve problem. (British, incidentally, stated they hoped US companies could join negotiations with Iran or even take lead.)

Please furnish guidance as how to handle subject Mossadeq's latest position on sales contract with British. No view expressed to them today this regard.

GIFFORD

No. 262

888.2553/1-153: Telegram

The Secretary of State to the Embassy in the United Kingdom[1]

SECRET PRIORITY WASHINGTON, January 2, 1953—7:26 p. m.

4382. Eyes only Gifford and Byroade. Reurtel 3611, Jan. 1, preliminary reaction of Department on three points as to which you requested Department's urgent comments is as follows:

As to point A, para 10, Tehran's 2425, repeated London 754,[2] clearly indicates that Mossadeq at one point in conversation was quite prepared to agree that AIOC could choose which nationalization law it considered as being most favorable to it.

We doubt whether Mossadeq's subsequent reference to decision by ICJ as to law to be used as basis for determining amount of compensation should be taken as a firm change in Mossadeq's position. Henderson however should clarify this point.

As to point B, it was not Department's intention in paper, transmitted Deptel 4337, Dec. 31,[3] to make advance of ten million dollars monthly installments contingent upon conclusion commercial sales contract. It was Department's intention however to cast DMPA advance in such form as to give every proper inducement to the negotiation of a commercial agreement which we hoped could be concluded promptly.

As British will understand, we might have preferred a lump-sum settlement tied in with a simultaneous solution of the commercial contract problem. This, however, was unacceptable to the U.K., and we have been proceeding on the general theory of their paper, entitled "The Persian Oil Dispute" sent to the Department as Despatch No. 2353, November 19.[4] That paper made it quite clear that once there had been agreement on arbitration, Iran would be free to sell oil to all comers and neither AIOC or Iran would be under obligation to enter into commercial agreement.

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[1] Repeated to Tehran eyes only for Henderson. Drafted by Nitze; cleared by Jernegan, Bonbright, Linder, and Metzger; and signed by Nitze.

[2] See footnote 2, Document 256.

[3] Not printed. (888.2553/12-3152)

[4] See footnote 3, Document 237.

DMPA has an interest in having a commercial agreement arrived at. Its assurance of continuing deliveries would be better under such circumstances. However, in view of the fact that Mossadeq has been brought around to a general acceptance of arbitration without his former conditions on the assurance that, once firm agreement on this has been reached, he will receive a one hundred million dollar advance from DMPA, we do not see how we can go back to a position of making a substantial portion of the advance contingent upon the conclusions of a commercial agreement with AIOC.

We do, however, believe every effort should be made to get assurances from Mossadeq that NIOC would negotiate in good faith with "Export Company" looking toward a commercial agreement.

As to your point C, we believe some form of understanding with respect to price is necessary to cover (a) the period prior to the negotiation of a commercial agreement and (b) the contingency that no commercial agreement is finally arrived at. We doubt whether Mossadeq would agree to, or if he did that we could rely on, a commitment to let DMPA fix the discount from time to time unilaterally as it saw fit. If the UK can suggest a formula more acceptable to them than that contained in Deptel 4337, we would give it prompt consideration.

FYI in light of Henderson's telegrams we may have to consider increasing the immediately payable portion of the advance to forty or fifty millions.

Re last para your 3611, we doubt whether any of the US majors would be prepared to participate in formation Export Company or take lead in negotiations. Cities Service or other independents might be prepared to do so, but we don't know whether this would be acceptable to UK.

Maximum indication of cooperation we received from majors was that they would try to find a basis for helping AIOC dispose of oil or products for which it could not itself find market if that were necessary to working out of proper deal.

We could, of course, reopen these questions with majors but doubt wisdom of doing so at this time.

ACHESON

No. 263

888.2553/1-253: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET NIACT TEHRAN, January 2, 1953—10 p. m.

2506. 1. I have just returned from another exhausting and difficult three-hour conversation with Mosadeq. During our conversation Saleh read to him in Persian statement prepared by me set forth in Embtel 2505 to Department and 782 to London January 2.[2] During and after the reading of this statement there was considerable discussion. Mosadeq refused, however, to retreat from his position that he would not grant to AIOC tremendous power over Iran's economic life which that company would possess if it had contractual rights over long period to purchase bulk Iran's oil production. He admitted reluctantly and rather indirectly towards end our conversation that perhaps AIOC was in possession of transport and marketing facilities which Iran needed to dispose of its oil. He agreed that although he would not be willing to obligate Iran to sell large quantities of oil to AIOC over long period he would be prepared to negotiate with American company or with "international company" in which AIOC would be participant for sale of substantial quantities of oil and oil production over a period to be determined. He explained term "international company" as company composed of participants of more than one nationality and registered in some country other than UK. He indicated that since AIOC would probably play important role in such company it should not be registered in UK. At end our conversation this subject he wrote in Persian following in his little notebook: "We are willing to sign agreement for sale of a definite quantity of crude and refined oil over a definite period of years with an international organization in which the former AIOC may or may not be a participant or with a US company or agency."

2. During our conversation we touched again on question of arbitration and he wrote following in his notebook in Persian: "The Iranian Government is willing to settle the question of compensa-

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[1] Transmitted in two sections; also sent to London.

[2] In telegram 2505 Ambassador Henderson reported that he would read a prepared statement to Mosadeq at his conference with the Prime Minister later that day. In general the statement emphasized the great importance from Iran's point of view of concluding commercial arrangements with the AIOC because (a) without a commercial agreement the British Government could not be assured of payment of a compensation award; (b) the U.S. Government would receive a great deal of criticism if it advanced the money in the absence of a commercial arrangement; and (c) it would be a symbol of good faith on the part of all parties. (888.2553/1-253)

tion with the former company by arbitration on the basis of any English law, acceptable to the former AIOC, nationalizing any industry in conformity with our previous conversations held on dates December 25 and 31." After writing that, he went into considerable detail about various terms of payment and so forth. I stopped him, pointing out that I was not in a position to negotiate details with him, I was merely discussing principles. I suggested that we might find ourselves in a hopelessly confused state if I should try to pass messages back and forth re technical details of settlement of various phases of oil problem. He agreed and scratched out all he had written on this subject. In response to my inquiry as to whether the passage quoted above still held good, he replied in affirmative.

3. He again referred to method of paying off compensation, and wrote down following in his little book in Persian: "After the signing of arbitration agreement, 25 percent of the proceeds of all sales abroad of crude oil and oil products shall be deposited in a bank acceptable to both parties. The amount so deposited will be used so far as may be necessary to pay any compensation which may be found due the former company. If there is any balance left after payment of compensation that balance shall be turned over to the Iranian Government. After the decision of the Arbitration Board is handed down if Iran is still found to be owing to the former company 25 percent of the proceeds of sales abroad will be payable to the former company until the full amount of compensation has been paid." At this point Prime Minister said he desired to make one exception to withholding of 25 percent for compensation. He wanted whole $100 million from American Government (see Embtel 2504 and London 781).[3] He needed it all and did not want $75 million. I said it would look more generous on his part and create better impression in general if he would also agree to put into escrow 25 percent of this amount. He replied that he would like to do it but Iran needed every cent. He added that US could rest assured that none of this amount would be wasted. It wld be used to strengthen Iran economy and help preserve as part of free world until such time as oil revenues should again begin to flow. I told him that to be quite frank I had just received indication today that US agency which purchased raw materials including oil seemed to be reluctant to pay down whole $100 million immediately upon signing of agreement of arbitration. My impression was that organization was thinking of paying approximately one-third of that amount immediately upon signature of arbitration agreement provided simultaneously a sales contract could be entered into with NIOC or Iranian Government and of paying remainder

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[3] Dated Jan. 2, not printed. (888.2553/1–253)

subsequently over period of six or seven months. Prime Minister said he would not register too great objection to part-payment at time of signature but he hoped that Iran could receive at least $50 million in cash at outset. He had complete confidence in any contract made by US Government and would not worry if he had US agreement to pay remainder over period of several months.

HENDERSON

No. 264

888.2553/1-353: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET NIACT TEHRAN, January 3, 1953—3 p. m.

2518. Eyes only Secretary and Jernegan.

1. Grateful for London's helpful telegram to Department 3611, January 1, final section of which unfortunately was not received until late last night. Nevertheless arrival two sections just before my conversation last evening with Mosadeq enabled me to so steer conversation as to clarify certain points. It clear as result my yesterday's conversation that Mosadeq willing to have AIOC decide which UK national law it would be willing to have arbitration board use as basis. I asked him three times during this conversation if I had understood him properly and received affirmative reply each time. I also wrote down his formula in his presence and at his dictation through Saleh, my Iranian counselor.

2. With regard to other questions raised in latter portion reftel my comment is as follows: Re paragraph (b) in my opinion it would wreck negotiations to endeavor to tie additional monthly installments to conclusion commercial sales contract. It would be clear that reason for such tie would be endeavor to pressure Iran into concluding sales contract. If Iran should become conscious such pressure its suspicions which I doing my best to assuage would be aroused to greater degree than hitherto. I earnestly hope that British will not insist on this tie-in. Re paragraph (c) it also my hope that British will not continue to insist that question of price for DMPA be left open pending conclusion commercial sales contract. For us to endeavor to connect price paid by DMPA with that to be negotiated by international company will again arouse suspicions. I can fully understand British concern lest willingness by DMPA to pay price higher than international company would be willing to

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[1] Transmitted in two sections; also sent to London eyes only for the Ambassador and Byroade.

pay might be prejudicial to negotiations by international company. On other hand paragraph 7 purchase contract provides that price provisions contained in paragraph 4 shall be appropriately modified to conform with price provisions of commercial contract with "export company". DMPA could emphasize orally at beginning its negotiations with NIOC that in its opinion price tentatively set is higher than commercial price likely to be and that eventually therefore it should receive more oil for its money than contract indicated. If it would not be embarrassing to NIOC, its statement to this effect could be given publicity in Iran at time contract signed. In my opinion it would be preferable if American governmental agency would not be used as battering ram in effort to obtain lowest possible price from NIOC for long term commercial oil agreement.

3. I obtained impression from reftel that British inclined to view with skepticism and reserve Mosadeq's apparent willingness to make certain concessions and his expressed desire to see oil settlement effected at earliest possible time. Their past experiences, portion of which I have had honor to share, furnish them considerable justification for their attitude. I agree with their views that possibility receiving $100,000,000 has strong allure for Mosadeq. On other hand I hope British doubts will not cause them to consider situation entirely hopeless or to examine each suggestion made or agreed to by Mosadeq with so much suspicion that we shall become bogged down in morass from which no solution can possibly emerge. As I have said in previous telegrams, I would not undertake to guarantee what Mosadeq will or will not do. I left him last night with impression that for first time he beginning to believe that there real possibility of early settlement.

I hope developments will not lag to such extent that he will again become discouraged and relapse into his usual intransigent frame of mind. Analysis of present situation here convinces me that it will be easier to obtain agreement from him than from any Prime Minister who has any likelihood of succeeding him and that if an agreement is to be obtained from him we must move rapidly. Furthermore we can not afford to become discouraged at temporary reverses or at flares of intransigence on his part. We had partial reverse on December 31 and may have more. I believe nevertheless we have in general made tangible progress. Although thus far Mosadeq has shown more interest in settling question compensation since he has seen some dollars in offing than he had in matter future sales, I detected during our last conversation growing interest in matter of future sales and I believe this interest will continue grow as we surmount hurdle of compensation. Mosadeq has to extent one track mind and difficult for him concentrate on more than one problem at time. I not be surprised if in case the compensation question settled and international company set up he try persuade it contract buy more oil than it believed itself able absorb.

4. I sincerely hope British will reconsider their attitude re ICJ judges being used as arbitration panel. I wonder if intent Article 34 Charter was really to prevent judges from being of maximum assistance in settling dispute which although between state and private company nevertheless is developing into threat to world peace. Intent of Article may have been to prevent Court from having its energies taken up with multitude litigation not really of prime international importance. Court's usefulness might be enhanced if it could in case of this kind resolve itself into, or permit several of its justices to assist in forming, arbitration tribunal. I partly responsible for suggestion that if certain justices did not wish to participate in proceedings they might drop out. Mosadeq's original suggestion was that "full panel" of justices serve as arbitration tribunal. I pointed out it might be physically impossible to have full panel; that in recent proceedings between UK and Iran justices of India and USSR did not participate; similarly various judges might not wish or be able be present during arbitration proceedings. Mosadeq's answer was if certain justices did not participate he would be willing to regard those who did as representative arbitration board. In case it impracticable for all or most judges to act as arbitration board I hope British will consider somewhat more sympathetically Mosadeq's suggestion that McNair and Sanjabi represent nucleus of arbitration board of three. It seems to me that if matter were presented in proper light to Court some way should be found to give McNair leave from Court to act in this capacity. Sanjabi not regular justice and could serve without receiving sanction Court. Surely provisions that judges are prohibited from engaging in any other business were not intended to prohibit them from participating in quasi-judicial proceedings of this kind which can have so great significance for world stability. In any event my efforts here will suffer serious setback if Court not approached immediately and in good faith with inquiry as to whether or not it would be willing (a) to resolve itself into arbitration panel or (b) to permit McNair to act as arbitrator. If Mosadeq's suggestions re use of justices of Court in arbitration proceedings are turned down because of British misgivings rather than because of decision of Court itself that agreement to them would be improper it would be difficult again to convince Mosadeq that British are not dragging their feet or that British really do desire early settlement. Mosadeq is infatuated with fairness of Court since its recent decision. It will be diffi-

cult persuade him trust any other arbitrator. Furthermore ICJ popular for present with Iran public.

HENDERSON

No. 265

888.2553/1–353: Telegram

The Secretary of State to the Embassy in the United Kingdom[1]

TOP SECRET WASHINGTON, January 3, 1953—6:18 p. m.
PRIORITY

4403. Eyes only Amb and Byroade. Re Byroade-Nitze telecon today fol are our views on major points:

1. Arbritration: We agree Henderson views expressed para 4 Tehran tel 2518 (788 London).[2] As we see it there are three lines which cld be followed: (a) as suggested Tehran reftel Court cld be asked resolve itself into Arbitral Tribunal, (b) Court cld be asked give McNair leave to join with Sanjabi in nominating third arbitrator and serving on Arbitration Board, or (c) reluctantly we suggest that if Brit find neither (a) or (b) acceptable, Henderson cld attempt to persuade Mossadegh accept formal participation Brit Govt as party before Court by presenting to him detailed draft agreement which wld spell out plainly and carefully that Court in no way going back on its previous decision that dispute not subject its jurisdiction and making plain UK appearing solely as rep AIOC.

Re (c) wld appreciate Henderson views whether he considers it feasible take this up with Mossadegh on basis draft transmitted Deptel 1611 (4384 to London)[3] or if we provide more elaborate draft.

Re (a) and (b), we think shld be possible get around prohibition on Judges engaging in other business if they receive no compensation for arbitral services. In any event we agree with Henderson that Brit shld not reject these two possibilities until Court itself has been asked to consider them. If they agree believe they should immediately consult Court. Unless Brit object we wld recommend we be authorized notify Mossadegh this being done as evidence Brit interest in coming rapidly to settlement.

2. Price: In light Henderson telegram we gather 35 percent discount in proposed DMPA contract wld probably be acceptable to Mossadegh and we hope Brit will also find it reasonable.

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[1] Also sent to Tehran. Drafted by Nitze, Linder, and Jernegan; signed by Jernegan.

[2] *Supra.*

[3] Not printed. (888.2553/1–253)

3. International Company: We believe Mossadegh latest proposal (Tehran tel 2506 rpt London 783)[4] offers satisfactory solution question negotiation sales contract. We believe that UK should be pressed at this time only to agree (a) that name of "Export Company" be changed to one including word "International", (b) that this company be incorporated in Switzerland or some other non-British jurisdiction and (c) that there would be a non-British interest or interests sufficient to justify calling it international. However, we think it probably unnecessary actually to complete formation of company before arbitration agreement concluded, so long as Mossadegh can be assured that company will be international and incorporated outside UK. Although we anxious see speedy progress on both lines, we fear that if conclusion arbitration agreement tied to complete organization of company inevitable delays in deciding participation and completing incorporation wld endanger arbitration agreement. Company need not be in existence prior to advances by DMPA since such advances cld be made direct to NIOC even though new company wld be made agent for receiving and delivering oil bought by DMPA.

FYI Our preliminary thought is that AIOC might participate to extent of something less than 50 percent, with Shell taking a good slice; thus together they wld have control. French having requested participation they might be allotted five to ten percent and remainder held open for American participation. Question of how to decide what American companies shld participate is somewhat troublesome although we are confident it can be worked out. End FYI.

4. Message to Mossadegh: We think point has been reached at which it is important Henderson be able convey to Mossadegh some reaction as coming from Brit rather than Amer Govt. It is of course up to Brit to determine what they might be willing to say but we wld think minimum wld be expression of genuine interest in Mossadegh proposals plus statement they being urgently studied and British Govt hopes soon to be able discuss details. Henderson cld simultaneously say that US Govt considers Mossadegh proposals offer real basis discussion and is prepared cooperate fully with Iran and Brit Govts in working out agreement along these lines.[5]

ACHESON

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[4] Document 263.

[5] Byroade responded on Jan. 4 that he agreed with the analysis contained in telegram 4403 and believed that the proposals outlined in it might well serve as the basis for an agreement. He went on to say that the British were being brought up to date, that the British Cabinet was scheduled to consider the matter shortly, and that he hoped that there would soon be decisions made in London which could be transmitted to Mosadeq. (Telegram 3644; 888.2553/1–453)

No. 266

888.2553/1-653: Telegram

The Ambassador in the United Kingdom (Gifford) to the Department of State[1]

TOP SECRET NIACT LONDON, January 6, 1953—11 p. m.

3696. Eyes only Secretary and Jernegan. Subsequent to meeting reported Embtel 3662, January 5,[2] Eden decided he would have consult his Cabinet colleagues before approving interim statement to Mossadeq regarding arbitration. Whole Iranian problem discussed by Cabinet this morning within context of our discussions here to date.

This afternoon, Eden asked Gifford, Byroade, Holmes and Palmer to meet with himself, R. A. Butler, Leathers, Lloyd and top ranking members Persian Oil Committee to discuss progress thus far and future line of action. Discussion covered following points:

1. *Form of arbitration.* Eden said he felt that we were in agreement on principle regarding referring compensation question to arbitration by ICJ and only remaining problem one of technicality. He conveyed to us message which Henderson could pass on to Mossadeq regarding informal consultations with court. Text of statement and oral explanations which Henderson might make are being covered in separate telegram.[3]

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[1] Transmitted in two sections; repeated to Tehran niact and eyes only for Ambassador Henderson.

[2] In telegram 3662 Byroade reported that he, Holmes, and Palmer met with Dixon, members of the Persian Oil Committee, and AIOC officials on Jan. 5. The British indicated they were drafting an interim reply concerning the Byroade-British conversations in London that Henderson could present to Mosadeq. The British planned to emphasize in this statement that they did not believe there was any substantial difference between their and the Iranian attitude regarding the manner in which the question of compensation might be referred to arbitration; they were considering suggesting to Mosadeq that they should approach the ICJ to see which of Mosadeq's suggestions the court could carry into effect; and the British hoped to clear this draft with Eden that very afternoon. (888.2553/1-553)

[3] Transmitted to the Department in telegram 3695, Jan. 6. Again, the British believed there was no substantial difference between their and the Iranian attitude regarding the role which the ICJ might play in determining the question of compensation by impartial arbitration. Moreover, the British would welcome the making of informal contact with the Court concerning Mosadeq's suggestions concerning the method of arbitration, but they thought it preferable for some other nation besides

Continued

2. *Terms of reference for arbitration.* Eden indicated that HMG has made good progress in working out terms of reference based on Coal Nationalization Law. These have been approved by legal advisers of interested government departments and are now before Lord Chancellor for final approval, which he hoped to have tomorrow.

3. *International company.* He reiterated statement made by Dixon yesterday that HMG would have liked AIOC to be principal customer for Iranian oil, but said that HMG now "willing reluctantly to agree" to a consortium with AIOC's largest but not majority interest. This company should probably be registered outside the UK, perhaps in Switzerland. From public relations point of view, he thought it should not be registered in US. Maud said Working Party urgently studying possible form international company. Leathers indicated group has in mind that company might consist UK, US, French and Dutch interests. He thought it would probably take six-eight weeks before company could be activated and in position start negotiations sales contract with Iran. We stated this seemed undue length of time and urged all possible speed. (After meeting Maud indicated six or eight week period was purely Leather's guess and this statement had not resulted from any information furnished him. Maud said he would be quite embarrassed if task should take that long.)

4. *DMPA advance.* Eden said HMG accepts principle of DMPA advance but feels installments should be tied closely in with commercial arrangements. He voiced same apprehension as Working Party in our previous meetings re removal of incentive for Mossadeq to reach commercial arrangement unless advance clearly tied in.

We explained our conception that DMPA funds are being used to purchase arbitration. If we now tried to link DMPA advance with commercial agreement, we stood grave risk of having possibility of settlement founder. We felt encouraged by Henderson's recent conversation with Mossadeq and were particularly pleased at former's initiative in having pressed ahead so quickly with Mossadeq regarding necessity commercial sales agreement. We had been encouraged by Mossadeq's indication his willingness to negotiate

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the United Kingdom to sound out the Court. The United States was willing to undertake this task if this procedure were agreeable to Mosadeq. (888.2553/1-653)

On Jan. 7 Ambassador Henderson reported that he had orally presented the British statement to Mosadeq that evening, and he said he would entrust the United States with the task of approaching the ICJ. Henderson also emphasized that the British had thus far agreed to nothing except impartial arbitration, and that no decision had been made concerning his other suggestions, including terms of reference. (Telegram 2585; 888.2553/1-753) agreement with international company. We emphasized that we were just as concerned as UK to see the sales contract quickly concluded with Iran, in order obviate possibility latter dumping oil. We felt there was no difference between US and UK on this question. Only problem was one of tactics as to how DMPA advance might be used for best tactical advantage. British suggested that problem was to find some middle ground between our reluctance to tie DMPA advance to conclusion of sales agreement and their concern regarding removal of incentive on Mossadeq's part to culminate agreement. Eden indicated, in this connection, that he thought HMG would be less concerned regarding manner of DMPA advance if Mossadeq would agree regarding arbitration and give commitment similar that which he wrote in his notebook regarding his willingness sign sales contract with international company (paragraph 1, Tehran's 2506, January 2 to Department). He was somewhat concerned, however, regarding subsequent installments after first part of advance if, say, $50 million were made and queried us closely as to how these subsequent increments of $10 million would be tied to completion sales contract. He felt there was danger that Mossadeq might be content to live as pensioner and neither to deliver under DMPA contract nor to sign commercial sales contract. We reiterated our opposition to tying two problems together and emphasized as evidence our intentions, necessity of our recouping US funds which we are investing in this project which can only be done through flow of oil. This seemed reassure British somewhat, although they continued express concern. They seemed particularly worried regarding size contemplated initial advance of $50 million and asked whether we could not see our way clear to reduce this to $30 million. Eden expressed fear that sizeable initial advance might encourage Mossadeq to think he had breathing spell before opening negotiations with international company.

In effort bridge this gap, we suggested that in addition to obtaining commitment from Mossadeq regarding his intention negotiate commercial arrangement within international company, we might try to pin him down to begin negotiations within given period.

5. *Escrow arrangements.* During course discussion on DMPA advance, it was apparent that there was some misunderstanding among British regarding manner in which 25 percent of value of oil would be placed in escrow for compensation. We explained matter in detail and Byroade subsequently had separate meeting with Dixon and other Foreign Office, Fuel and Power and Treasury officials on this subject.

6. *Marcus deal.* Leathers reiterated British concern regarding Marcus deal. British felt that it would be preferable if this compli-

cation could be cleared out of way. We told them that we thought they had no cause for concern on this point. British indicated they would be very much reassured if it were possible to get Mossadeq to indicate that he was not interested in Marcus deal. We did not commit ourselves as to this approach, but said we would pass on to them as soon as possible any information which we obtained from Department on Marcus and status of his deal.[4]

7. *Price and DMPA contract.* After meeting, Dixon and Maud told Byroade that British would no longer object to interim price in DMPA contract. Also that 35 percent discount was all right if British could be satisfied on manner in which we handle question escrow deposits.

GIFFORD

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[4] On Jan. 6 the Department informed the Embassy that there had been no further direct approaches from Marcus or Aria, and that the Department had informed Aria that day that the U.S. Government was not interested in financing the contract he had discussed with Department officials on Dec. 26, 1952. Aria did not seem surprised and asserted that he believed he had the financial means available to carry out the deal without Federal government assistance. The Department, however, was unimpressed, believing that Marcus and Aria had neither the money, tankers, nor markets of their own. (Telegram 4445; 888.2553/1–553)

No. 267

888.2553/1–653: Telegram

The Ambassador in the United Kingdom (Gifford) to the Department of State[1]

TOP SECRET NIACT LONDON, January 6, 1953—11 p. m.

3694. For the Secretary from Byroade. Consider meeting with Eden and advisors today quite encouraging. Have felt from past discussions that the British were psychologically prepared to go forward with agreement on Iran but were being characteristically reticent prior to necessary high-level discussions and consultations with AIOC. Principal point between us seems to be questions revolving about the manner in which our advance is handled. In view of British concession to allow AIOC and not the state to be member to the dispute and the fact that they have now clearly agreed to handle phase two through an international consortium registered outside of UK, believe we should meet them wherever we can on remaining points of disagreement without of course restricting the use of our "bait" in such a manner as to upset the whole deal.

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[1] Transmitted in two sections; repeated to Tehran eyes only for Ambassador Henderson.

Points on which I believe we need Department's guidance are as follows:

1. Manner In Which Consultations With Court Are Undertaken.

In answer Eden's query as to whether we would be willing to informally approach the Court we replied in the affirmative. Terms of reference placing matter before the Court may be important in this informal contact. British believe they can have a draft of such terms by tomorrow afternoon. Believe therefore we should wait until in possession of that draft as well as to receive word from Mosadeq that he agrees to our contact with the Court.

Then comes question of who should go to The Hague. It would clearly be advisable to have lawyer who is familiar with Court, its charter [*Statute*], and has background in the Iranian problem. No one in London appears to meet these qualifications. If someone in London is to be assigned this task, it should probably be Palmer and myself or perhaps Palmer alone. An alternative would be for Butch,[2] if he is available, to fly straight to Hague and be met there by Palmer. Please advise.

2. Problem of Handling Escrow Deposits.

This seemed to greatly concern the British. They have never been clear as to how this matter would be handled. I explained our views today as set forth in Deptel 4400.[3] Eden told me afterwards he considered this one of his greatest public opinion problems. If it is made to appear in Britain that the United States advanced as much as $50 million initially on oil without any portion thereof being set aside for compensation, he would indeed be in trouble in Parliament and with public. I explained to him that he could truthfully say that under our arrangement 25 percent of the proceeds for sale of oil would be set aside for compensation. The difficulty he foresees arises from the fact that if oil does not flow through a commercial contract there will be nothing set aside and Mosadeq will have $50 million or more completely free from compensation payments. I stated I believe it impossible for the United States to make contract in which portion of our advances to Mosadeq would automatically be set aside in escrow account and saw no way that funds could be placed in escrow prior to the time oil actually began to move. I indicated, however, we would give the matter serious thought. (Later, one of Treasury officials suggested agreement under which we would make contract with Iranian Government involving entire advance (i.e., $133 million), but with contingent arrangement whereby Iran authorizes us deduct 25 percent for deposit in escrow.) In considering this point I have since reviewed alternative plans set forth by Henderson in Tehran telegram 2510 to Department (repeated London 785)[4] but do not as yet see way to meet Eden's point. Perhaps if [there] is no other way, public statement by each of us could be devised partially to meet Eden's point. Please advise.

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[2] Presumably reference is to the Department's Legal Adviser, Adrian S. Fisher. See telegram 4505 to London, Jan. 7, *infra*.

[3] In telegram 4400, Jan. 3, the Department reported that Iran would receive the total advance of $100 million without any deduction with respect to compensation. However, as deliveries of oil were made, 75 percent would be credited for repayment of the advance and 25 percent would be paid for in cash by DMPA, the proceeds being deposited in an escrow account. Thus, DMPA would advance $100 million and purchase an additional $33 million worth of oil which represented a total cash outlay by DMPA of $133 million to be spent on either crude or refined products. Of that, $100 million would accrue to DMPA as reimbursement for the original $100 million advanced and the other $33 million would be deposited in escrow. (888.2553/1-353)

3. Question of Long-Term Contract.

British concerned Mosadeq's real interest may be that of obtaining advances from United States without intention to follow through on an adequate sales contract. I attempted to assure Eden that we would be just as concerned of such a development as would be the British. We felt Henderson's latest conversations with Mosadeq showed a considerable trend in the right direction and that we would lose no opportunity to impress upon Mosadeq the necessity for an early arrangement which could cause substantial quantities of oil to flow. Eden agreed Henderson's initiative in taking this point back to Mosadeq has been indeed admirable and that some results have been obtained. He quoted last sentence of paragraph 1 of Tehran's telegram 2506 (repeated London 783)[5] which gave Mosadeq's statement that he was willing to sign an agreement for sale of a definite quantity of crude and refined oil over a definite period of years with an international organization of which the former AIOC could be a participant. Eden wondered if we might not ask Mosadeq to make this a formal commitment at the time of the signing of the arbitration agreement and our interim sales contract. I indicated that I thought this would be a reasonable move. I tentatively stated, subject to consideration, that it might be possible to ask Mosadeq to also commit himself as to when Iranian representatives would be able to undertake negotiations with international consortium. Eden thought that that would be extremely helpful and would greatly ease his problem of seeing the United States advance large sums of money not tied directly into the completion of the sales contract. Request Henderson's and Department's views as to feasibility of asking Mosadeq at the time of signing to make one or both of these commitments.[6]

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[4] In telegram 2510, Jan. 3 (888.2553/1-353), Ambassador Henderson set forth additional suggestions concerning the memorandum transmitted in telegram 1588 to Tehran, Dec. 31, 1952 (888.2553/12-3152).

[5] Document 263.

In my conversations with Dixon, I had told him we might feel it necessary to raise the first advance some $30 millions to $50 millions. Just prior to Cabinet meeting, we sent substance first paragraph Tehran's telegram 802 (repeated to Department 2539)[7] to Eden. Throughout the conversation today Eden stated he hoped that we would not need to raise this initial advance. He seemed to accept, but very reluctantly, the fact that we would probably go ahead with the $50 million figure. He was quite clear, however, that this would increase his public relations problem. They also, I think, honestly believe this amount may make Mosadeq less interested in an early sales contract. This problem would be eased for them if we could handle the question of escrow deposit to their liking and obtain the commitments referred to in point 3 above. In light of these factors please advise as to what figure should be used henceforth with British.

My own recommendations are set forth below. No opportunity at present check these with Gifford or Holmes and Ambassador may wish comment latter. Points refer numbered paragraphs above.

(1) Suggest Fisher proceed here or Hague at once if this at all practicable. He could be useful several points and between us we should be able handle court consultation problem here.

(2) Can give no recommendations. Need some ingenious suggestion from Washington help meet Eden's point if we can. In this connection do not understand Henderson's second alternative in Tehran telegram 2510.

(3) We should seek Mosadeq's commitment on both points unless Henderson feels this unwise. Commitments seem reasonable from our point of view as well as that of the British.

(4) In event we can be helpful on points (2) and (3) above, or at the very minimum (3), recommend we stick to 50 million figure and accept no further tie in of installments with long term sales contract. (Interesting in this connection British today only talked of tying installments to beginning of negotiations; not to completion of long term sales contract.) On question of future tactics I have stressed (1) transmittal by us of proposed British arbitration agreement to Mosadeq at earliest possible date and (2) dispatch of DMPA representative Iran for negotiations. These should be signed simultaneously with negotiations on long-term contract coming

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[6] For the Department's response, see telegram 4505, *infra*. Ambassador Henderson's reaction was sent in telegram 2606, Jan. 8, not printed. (888.2553/1-853)

[7] Ambassador Henderson had urged, in paragraph 1 of telegram 2539, Jan. 5, the necessity of convincing the British to agree to the payment to Iran of $50 million immediately after the conclusion of arbitration compensation and sales contracts. Otherwise, it would be impossible to blunt the growing intransigent attitude of nationalist extremists in Iran. (888.2553/1-553)

along as soon as possible but later. British feel that next step is for Henderson to put package to Mosadeq consisting of (1) suggested British arbitration agreement, (2) terms under which DMPA contract would be made and schedule of advances, and (3) securing his agreement make commitment at time of signing re willingness enter into long term sales contract with international company which would include AIOC.

Believe British suggestion on tactics acceptable providing this could happen quickly which they believe the case. I think real point is that they wish to make certain US and UK in agreement on total package before vital points discussed again and piecemeal with Mosadeq.

We agreed to hold another meeting on same level on Thursday. Meantime working level discussions will continue.

GIFFORD

No. 268

888.2553/1–653: Telegram

The Secretary of State to the Embassy in the United Kingdom[1]

TOP SECRET PRIORITY WASHINGTON, January 7, 1953—7:58 p. m.

4505. Eyes only Ambassador & Byroade. Department's views re four numbered points in urtel 3694, Jan 7 [*6*], are as follows:

Point 1. Subsequent to telcon today, it developed it would be extremely difficult for Fisher fly London Thurs. If you need technical legal help, he could send Meeker immediately. Fisher himself could leave here Sunday if really necessary. Suggest you telephone tomorrow morning.

Agree we should approach Court since British desire and Mossadeq approves (Tehran's tel 823, rpt to Dept 2585).[2] In absence Fisher, believe you and anyone else you choose might go to The Hague.

Point 2. DMPA will be assuming considerable risks in making advance under the best of circumstances. Basic purpose of advance is, of course, security to the West as a whole of the Middle East and its resources. Immediate purpose, however is to secure agreement re compensation to AIOC and in a form desired by the U.K. We do not see how we can ask DMPA to further increase the amount of money it will have at risk merely to meet a U.K. public relations problem. We could justify to the Congress an advance to Iran because of its contribution to the security of the U.S. and its allies. It would be difficult to justify an advance merely for the purpose of making compensation available to AIOC.

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[1] Repeated to Tehran eyes only for Ambassador Henderson. Drafted by Nitze, cleared by Linder and Jernegan, and signed by Jernegan.

[2] See footnote 3, Document 266.

The U.K. paper of Nov 19[3] indicated that it would be desirable, but not a condition precedent to agreement on arbitration, that a portion of Iran's oil revenues during phase two be placed in escrow. We believed we had fully satisfied their point in our original formulation of Heads of Agreement re DMPA advance.

It might be possible to change the appearance without changing the substance, but believe even this would present us with grave difficulties and delays in being able to get the prompt action which is desirable from DMPA and the other interested agencies.

We believe Eden is under misapprehension when he states that "If oil does not flow through a commercial contract there will be nothing set aside toward compensation". Heads of Agreement paper provides that NIOC must agree to a schedule of deliveries, etc. before monthly installments of advance are made. We anticipate that even if commercial agreement should be delayed or in the last event prove impossible that International Export Company would have been formed and DMPA would receive deliveries, at least of products now in storage and of crude, and that as deliveries are made an amount equal to twenty-five per cent of their value would be put in escrow. Thus whether or not commercial agreement is made, payments will be made into escrow account proportionately and as rapidly as U.S. receives reimbursement of advance.

Point 3. Subject to Henderson's comments, Department believes both your suggestions may have merit. As to first suggestion, it should be understood of course that Mossadeq would not be asked to go beyond his previous statement reported Tehran Tel 2506 that he would be willing sign agreement for sale definite quantity oil over definite period years with an international organization of which AIOC could be participant. Validity or implementation of arbitration agreement or DMPA contract would not be dependent upon final conclusion commercial agreement. As to second suggestion, Brit should be clear that international consortium will be in a position to initiate negotiations as soon as Mossadeq is so prepared to do.

Point 4. In view of fact we do not believe we can meet Eden's problem on Point 2, we feel it would be desirable to make figure for initial advance forty million dollars. We would not want, however, to be foreclosed from raising this to fifty million dollars in the event that Henderson should find it impossible to get Mossadeq's cooperation on other essential points if we stick adamantly to the lower figure. Obviously, from our standpoint, forty million dollars rather than fifty million dollars would be desirable.[4]

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[3] See Document 237.

[4] On Jan. 9 Ambassador Henderson expressed the hope that he would receive instructions to offer Mosadeq an initial advance of $50 million rather than $40 million because he was fearful that if Mosadeq gained the impression that the most liberal offer was not being made from the beginning, he might haggle at every point of the negotiation. (Telegram 2612; 888.2553/1–953)

Re tactics, we are inclined to favor British suggestion. An additional consideration in this connection is that the memo re Heads of Agreement on DMPA advance would need to be elaborated at some time into a more formal and detailed contract between DMPA and NIOC. We doubt whether it would be wise to send a DMPA representative to negotiate such a detailed contract prior to agreement by Mossadeq on the three points contained in the British package suggestion.

Reurtel 3696 Jan 6, para 3, assume you continuing press utmost speed in organization of International Export Company. In its prompt activation and initiation of negotiations for commercial agreement lies UK's best hope that our advance will not cause Mossadeq to become "pensioner". Except for problem of negotiations between AIOC and other participants which should not be permitted to drag indefinitely, we see no reason why with determination to move forward company could not be organized and be in position to begin negotiate within month at outside even though all arrangements with all participants have not been worked out by that time.

ACHESON

No. 269

888.2553/1-853: Telegram

The Ambassador in the United Kingdom (Gifford) to the Department of State[1]

TOP SECRET NIACT LONDON, January 8, 1953—11 p. m.

3737. From Byroade. In the discussions today with Eden points which were discussed (other than terms of reference reported separately) were as follows:

1. *Form of arbitration.* British clearly do not like idea of Court appointing such of its own judges as are willing to serve as arbitration panel. I gathered they would not refuse such a course if Court preferred this method, but they would clearly wish whole Court, or at least a substantial and balanced majority, to participate.

British do not wish any arbitration panel less than 5 members. If Mosadeq's second alternative could be increased in some manner from 3 to 5 they would not object.

British clearly prefer that Court appoint a 5-member arbitration panel, with all members selected at discretion of Court. Question as to whether to refer to alternative methods of form of arbitration in formal communication to Court was left for further discussion after our initial contacts with Court.

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[1] Repeated to Tehran eyes only for Ambassador Henderson.

[2.] *Tactics.* I agreed with British that immediate task before us was to prepare a "package" approach consisting of following:

(1) Draft arbitration agreement;
(2) Main outlines of DMPA contract and manner in handling US advance;
(3) Commitments desired from Mosadeq re opening of negotiations before a commercial contract.

3. *Method of handling escrow.* Eden reluctantly accepted fact we could not handle escrow problem in manner that would allow funds to be set aside prior to actual delivery of oil. He stated that if DMPA contract could be for oil to value of $133 million instead of $110 million, this would help meet his problem. I suppose he meant that he could point out that US was buying $133 million worth of oil, but that only $100 million of this amount would accrue to Iran while $33 million would be placed in escrow for AIOC. Also it would be clear to other concession countries that because of compensation element, DMPA terms not more favorable than 50–50. I told him I thought our contract would necessarily have to be for total amount of oil to be purchased by DMPA and as this was equivalent of $133 million worth, I believed his point had been met. Please confirm total quantity to be specified in DMPA contract.

4. *Commitments from Mosadeq.* British clearly delighted we would seek two commitments from Mosadeq mentioned under point three my telegram 3694 to Department (repeated Tehran 127). I pointed out we had not yet received Henderson's comments and I did not think in any event we could go beyond asking Mosadeq to agree formally to substance previous statement to Henderson in this regard. There was some discussion as to whether matters of price, etc. could be brought into those commitments. I stated I believed it to be unreasonable request commitments such matters in advance of commercial negotiations.

5. *Initial advance.* I informed British we will attempt to restrict our initial advance to $40 million unless it were found impossible to obtain cooperation of Mosadeq on other essential points of a settlement if we stuck adamantly to lower figure.

6. *Subsequent installments.* I had planned not to raise this subject again with British but to assume in future in view of vagueness of past discussions that they did not object to manner in which we planned to handle these installments. British raised point, however, and pressed again for us to tie subsequent installments to conclusion of a commercial contract. I stated I was certain Washington would not approve of this arrangement. To do so would be accepting a provision that our Ambassador has told us emphatically will not work. Eden asked if we could not tie installments in some way to beginning of negotiations and indicate to Mosadeq that faster oil flowed, quicker he would get his subsequent installments. I stated that if international company could be formed in a hurry there was every possibility that a sales contract could be concluded long before installments would all be made. If British would be able through international company to begin ne-

gotiations within a month and Mosadeq committed himself to be ready within that time limit, there was as well every probability that first installment would not be made prior to that time. I agreed to explore possibility of some connection between installments and beginning of negotiations, but refused to agree to tie them in any way to conclusion of a sales contract.

The above haggling on amounts and timing of installments can not help but be annoying under the circumstances. It represents a fundamental difference on tactics between US and British so obvious in many problems. It is the theory of the "dangling carrot" which will force better terms in negotiations and is the same problem I run into here on the subject of Egypt. I believe it fruitless to continue extended conversations on such subjects. If you have any ideas as to whether we could make some tie-in between our installments and the beginning of negotiations, they would be appreciated. If not, I plan to stick to our present position as representing firm position of the Secretary.

GIFFORD

No. 270

888.2553/1-853: Telegram

The Ambassador in the United Kingdom (Gifford) to the Department of State[1]

TOP SECRET NIACT LONDON, January 8, 1953—11 p. m.

3738. From Byroade. We had another meeting on Iran this afternoon with Eden and other officers mentioned Embtel 3696 repeated Tehran 129. Most important subject discussed was question of terms of reference for Court which will be dealt with in terms cable. Other matters discussed will be dealt with in separate message.[2]

We informed British that we considered question raised in paragraph 2, Tehran's 2569 repeated London 816[3] as most important issue yet unresolved and one which is most likely cause failure in reaching final agreement with Mosadeq. We supported Henderson's views we did not believe Mosadeq could accept terms of reference which made it clear on their face that Mosadeq had agreed that Court can ask Iran to pay compensation for loss of future profits.

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[1] Repeated to Tehran eyes only for Ambassador Henderson.

[2] Telegram 3737, Jan. 8, *supra.*

[3] In telegram 2569, Jan. 6, Ambassador Henderson warned that Mosadeq would not accept British terms of reference governing compensation which clearly indicated that he had agreed with the British that the ICJ could ask Iran to pay compensation to the AIOC for the loss of future profits. (888.2553/1-652)

British produced draft terms reference which are based on coal nationalization tribunal's terms and have been fully agreed in UK Government. Text follows: "The terms of reference of the tribunal shall be:

"(1) To determine the sum required to provide fair compensation to the company for the loss of the property, rights and interests in Iran held by the company immediately prior to the passing of the Iranian Oil Nationalization Laws of March and May, 1951, and for that purpose the tribunal shall ascertain the amount which such property, rights and interests might have been expected to realize if sold as one unit in the open market as property, rights and interests of a going concern by a willing seller to a willing buyer on the basis of

> "(a) The net annual maintainable revenue, that is to say, the net annual revenue which the company reasonably have been expected to earn in the future from its operations in Iran if the Iranian laws in question had not been passed;
>
> "(b) The number of years purchase to be applied to such net annual maintainable revenue

"(2) To determine the validity of any counter claims which the Iranian Government may have against the AIOC and the sum required to meet them".

There was considerable discussion as to why such an unattractive formula was necessary to protect British position. Point seems to be that while Coal Nationalization Law clearly refers to future earning capacity aspect, this is on basis of assets of the Mining Association. In the case of coal, there was, of course, no concession involved. It seems, therefore, that under this law question would arise as to whether concession agreement was included among assets of AIOC. Iranian position has been, of course, that concession agreement invalid and British fear they will take position before court that compensation should be determined solely upon basis of "property" involved. They, therefore, wish have terms of reference which indicates that company would be compensated for loss of "property, rights and interests" in Iran.

There was inconclusive discussion whether British could accept simple terms of reference merely referring to Coal Nationalization Law and have a private agreement with Mosadeq that in presentation before court Iranians would not contest claim for future profits resulting from cancellation of concession contract.

We suggested that while we did not know whether the words "rights and interests" could be publicly accepted by Mosadeq, it seemed their point could be met just as well by reducing their text to following:

"To determine the sum required to provide fair compensation to the company for the loss of the property, rights and interests Iran held by the company immediately prior to the passing of the Iranian Oil Nationalization Law of March and May, 1951, and for that purpose the tribunal shall use as a basis the terms of the Coal Industry Nationalization Act 1946 of the United Kingdom".

The British then produced following text which they stated had not been cleared with AIOC:

"(1) To determine the sum required to provide fair compensation to the company for the loss of the property, rights and interests in Iran held by the company immediately prior to the passing of the Iranian Oil Nationalization Laws of March and May, 1951, on the basis that those laws had not been passed and that the property rights and interests of the company in Iran had been sold immediately before the passing of those laws in the open market as a going concern by a willing seller to a willing buyer, this being the basis adopted for the purposes of the compensation awarded under the Coal Industry Nationalization Act 1946 of the UK.

"(2) To determine the validity of any counter claims which the Iranian Government may have against the AIOC and the sum required to meet them".

Eden asked if I would transmit text above which is their first reference to Henderson for comment. I stated that I would do so but as this text clearly spelled out question of future profits, I feel they need be under no illusion that we would find text quite unsatisfactory. After some hesitation, British agreed that I could transmit other two texts given above for comment by Department and Henderson, but with understanding they have not been approved here.

In my own view the British preferred text is quite unacceptable. I believe, however, from a legal point of view they may run certain risks under Coal Nationalization Law unless it is clear that "rights and interests" can be added to word "property". Urgently request advice as to whether Henderson believes Mosadeq could accept addition of those two words.

Also request advice as to whether you see any possibility of a secret commitment being used on this point. I believe it would be out of question for two governments to reach a secret agreement which could be referred to court for its guidance. Only other possibility in this field would seem to be secret agreement that Iranians would not contest before court a claim for future profits based upon concession agreement which are over and above future earning power of physical property.

GIFFORD

No. 271

888.2553/1-953: Telegram

The Ambassador in the United Kingdom (Gifford) to the Department of State[1]

TOP SECRET NIACT LONDON, January 9, 1953—10 p. m.

3777. Eyes only Secretary and Jernegan from Byroade. I am again encouraged by pace at which things now seem to be moving here on Iran. Eden extremely good at lunch and overruling his advisers in our presence, arranged series of meetings this afternoon culminating in meeting his Cabinet colleagues this evening. I think that British are on verge of decisions here which may well finalize quickly. One sign of encouragement is urgency and apparent open-mindedness with which British have undertaken to examine new formula for terms of arbitration which we put to them today (Embtel 3745 January 9).[2] Formula also discussed this afternoon with Company who seem favorably disposed, but wish to consult Shawcross who arrives from Aden tomorrow before final decision reached. Eden has indicated his willingness return if required for Iran discussions.

After lunch with Eden today, there was further discussion of question of tying DMPA advances in with commercial negotiations. We both reiterated our respective points of view, but there was no doubt that Eden definitely more flexible on this problem than most of his colleagues. At end of discussion Eden suggested that matter might be handled by our making initial advance of 40 to 50 million dollars upon completion arbitration agreement and DMPA contract and subsequent installments on monthly, or preferably bi-monthly, basis after schedule of deliveries agreed on, informing Mosadeq at same time that if commercial negotiations with international company were completed earlier, entire remaining advance would be handed over. I said we would be willing to look into this one.

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[1] Repeated to Tehran eyes only for Ambassador Henderson.

[2] In telegram 3745 Byroade informed the Department that he was submitting a new formula for the terms of reference governing arbitration in an effort to meet British objections expressed the previous day. The text of the new formula reads:

"To determine the sum required to provide fair compensation for the loss of property, rights and interests in Iran sustained by the company as the result of the passing of the Iranian Oil National Law of March and May 1951 and for that purpose the tribunal shall use as a basis any English law, which the company might specify, nationalizing any industry in the UK; and to determine the validity of counterclaims which the Iranian Government may have against the company and the sum required to meet them." (888.2553/1-953)

On reflection, I no longer think personal message from Secretary to Eden suggested Embtel 3740 January 9[3] is indicated to meet situation here on this point. If we can get workable arbitration agreed to, we can proceed with our part of package as we see fit (within reason of course) without undue resentment here. That of course, is all we ask and I have never requested their express agreement. Believe when all else is agreed I can close this one out by saying that we feel that our Ambassador in Tehran, on whom we both must rely for advice, is in best position to judge what can be done and that Washington is firmly of opinion that he must be backed on this point.

I would be grateful for the following actions:

(a) Department's and Tehran's urgent comments[4] regarding arbitration formula contained Embtel 3745.

(b) Forwarding soonest of essential main headings draft DMPA contract (including advances) which must be included as part of package to be put to Mosadeq. Believe I could do this here, but would appreciate this assistance.

GIFFORD

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[3] In telegram 3740 Byroade reported that, in view of the fact that the discussions of the previous day with the British were disappointing, progress toward reaching a settlement of the oil crisis could be slowed considerably. To prevent this from occurring, Byroade suggested that Acheson should address a personal appeal to Eden in an effort to overcome British objections to the terms of reference and the method of handling the DMPA advance. (888.2553/1-953)

[4] On Jan. 9 the Department responded that it thought Byroade's suggested formula appeared to meet Mosadeq's political and psychological problems. If, however, Henderson believed the insertion of the words "rights and interests" would be unacceptable to Mosadeq, the Department suggested that the first part of the formula might be changed to read:

"To determine the sum required to provide fair compensation due the Anglo-Iranian Oil Company as the result of the passing of the Iranian Oil Nationalization Law".

Such general phraseology would permit the AIOC to claim compensation for any and all losses whether for property or other "rights and interests". (Telegram 4557; 888.2553/1-953)

On Jan. 10 Ambassador Henderson commented that he hoped the British would accept Byroade's new language, especially as amended by telegram 4557 to London. Henderson did not see how Mosadeq could object to Byroade's draft as amended. (Telegram 2630; 888.2553/1-1053)

No. 272

888.2553/1-953: Telegram

The Secretary of State to the Embassy in the United Kingdom[1]

TOP SECRET NIACT WASHINGTON, January 9, 1953—5:55 p. m.

4570. Eyes only Amb and Byroade. This telegram refers to London's 3737 and 3738[2] and Tehran's 2608.[3]

1. We think British preferred terms reference set forth first portion London's 3738 unacceptable and alternative British text also probably unacceptable. Separate telegram gives our views Byroade's condensed formula as modified London's 3745.[4]

2. Re paragraph 1 London's 3737, we are disturbed at British preference for five-member arbitration panel appointed by Court. It should be pointed out to them that Mosadeq appears attach great importance to participation McNair if Court as whole unavailable. He has never indicated agreement that Court might have full discretion appoint arbitral panel (other than panel composed of Court judges themselves).

3. Re paragraph 3 London's 3737, believe we can accept Eden's suggestion that DMPA contract specifically state it is for purchase oil to value $133 million, so long as contract continues to provide that escrow payments made only as oil delivered.

4. Re paragraph 4, London's 3737, we believe Mosadeq statement to Henderson reported Tehran's 2608 is satisfactory but should be supplemented by agreement to commence commercial negotiations within (say) 30 days after signature arbitration agreement. Concur Byroade's view that price and other considerations could not be included in these commitments.

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[1] Repeated to Tehran eyes only for Ambassador Henderson. Drafted by Nitze and Jernegan and signed by Jernegan.

[2] Documents 269 and 270.

[3] In telegram 2608, Jan. 8, Ambassador Henderson reported that during a conversation with Mosadeq that evening, he said he was agreeable to using British law as the basis for the terms of reference governing compensation. Mosadeq also expressed understanding of the economic necessity of having Iranian oil return to guaranteed world markets to generate enough money to enable the country to plan its economy. Henderson also explained that there was some concern in the United States and United Kingdom that after the conclusion of arbitration and American purchase agreements and after Iran received substantial advance payments from the United States, Iran would not be interested in negotiating a long-term sales contract with an international company, and that Iran would have no means of paying compensation. Mosadeq insisted he would negotiate with an international company as soon as possible after concluding the arbitration and United States purchasing accords. Henderson also reported that Marcus was unable to carry out his promises, and that Mosadeq had broken off contact with Marcus. (888.2553/1-853)

[4] See footnote 2, *supra*. The telegram presumably under reference is telegram 4557 to London, Jan. 9; see footnote 4, *supra*.

5. Re paragraph 6, London 3737, dealing with subsequent installments, you are correct that Department would not approve of arrangement tying subsequent installments with conclusion of a commercial contract. We also agree with Byroade's point that if international company could be formed promptly there is definite possibility that sales contract could be concluded before installments made. If international company ready to begin negotiations within a month and Mosadeq commits NIOC to be ready within that time limit, first monthly installment would certainly not be made prior to that time. As we see it, there is a problem only in the event Mosadeq were to commit NIOC to initiate negotiations within a certain time limit and then NIOC did not live up to this commitment. Subject to Henderson's comments, it is our view that DMPA should be in position to delay proceeding with installments if there is clear lack of good faith on part of NIOC in living up to its commitment to initiate negotiations.

We would want, however, to handle this point in such a way as to not increase Mosadeq's public relations problem in Iran. It might be adequate if at time agreement is reached with Mosadeq on Heads of Agreement with respect to DMPA advance Henderson gave him a separate letter which would say that it will be difficult for DMPA to determine quantities for which it will want to negotiate delivery schedules, under paragraph 1 of the Heads of Agreement, until negotiations between NIOC and the International Export Company have begun. In event failure to initiate negotiations were responsibility of International Export Company, DMPA would, nevertheless, proceed with negotiation of delivery schedules and with installments of advance.[5]

6. Greatly encouraged by Mosadeq attitude toward future commercial sale Iranian oil as reported numbered paragraph 2, Tehran's 2608. It seems to us this gives much greater reason for confidence that commercial sales agreement will in fact be accepted. Grounds for this confidence also provided by Mosadeq reaction to Henderson mention of Marcus contract. (Numbered paragraph 3 Tehran's reftel.) This should relieve British fears previously ex-

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[5] On Jan. 10 Ambassador Henderson reported that he agreed completely with the contents of telegram 4570 to London, with the exception of paragraphs 4 and 5. He thought Mosadeq's statement that he was prepared to enter into negotiations whenever the international company was ready was preferable to any 30-day clause request which might make him raise the question of why the United States was not satisfied with the statement he said he was willing to make. Henderson also thought if he had to hand Mosadeq the kind of letter suggested in paragraph 5, complications would ensue. He would be compelled to make such a letter public, and there would be numerous suspicious questions raised in the Majlis and press that could affect the atmosphere of the settlement. (Telegram 2634; 888.2553/1–1053)

pressed that Mosadeq would be difficult because he felt he could fall back on Marcus contract.

7. Also encouraged by Byroade's telephone report today of further progress and his belief British see need give Henderson adequate leeway to negotiate. Approve Byroade decision remain London until "package" completed. In view telephone report, Secretary will not send personal message to Eden.

ACHESON

No. 273

888.2553/1-953: Telegram

The Secretary of State to the Embassy in the United Kingdom[1]

TOP SECRET WASHINGTON, January 10, 1953—4:47 p. m.
PRIORITY

4599. Eyes only Amb and Byroade. Fol covers Tehran's tels 2612, 2626, 2627, 2628, 2630 and London's tel 3777.[2]

1. Terms of Reference:—(Re Tehran's tels 2628 and 2630).[3] We hope Byroade can persuade Brit accept his formula transmitted London 3745[4] as modified by third para Deptel 4557[5] and endorsed by Henderson.

2. Amount of initial advance:—(Re Tehran's tel 2612, para 2 and 2627 para 5).[6] In view Henderson strong feelings we are reconsidering this ques.

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[1] Repeated to Tehran eyes only for Ambassador Henderson and to The Hague for Byroade. Drafted by Jernegan, cleared with Nitze and Linder, and signed by Jernegan.

[2] In telegram 2626 Ambassador Henderson asked the Department for information about the price which the United States was going to offer Iran for Iranian crude oil. (888.2553/1-953)

Telegram 3777, Jan. 9, is Document 271. The remaining telegrams are explained in footnotes below.

[3] In telegram 2628, Jan. 9, Ambassador Henderson expressed the opinion that there was no possibility that Mosadeq would accept the British preferred draft as set forth in London telegram 3738 (Document 270) as Mosadeq could never agree to a formula which specifically referred to future profits. (888.2553/1-953)

For a summary of telegram 2630, Jan. 9, see footnote 4, Document 271.

[4] See footnote 2, Document 271.

[5] See footnote 4, Document 271.

[6] For a summary of telegram 2612, see footnote 4, Document 268.

In paragraph 5 of telegram 2627, Jan. 9, Ambassador Henderson expressed the hope that, in view of the psychological value involved, he would be instructed to advance $50 million instead of $40 million, and that the British could be persuaded to withdraw their objections to the American offer of $50 million at the outset of the DMPA negotiations. Henderson believed that his advice should prevail, especially because Mosadeq would in all likelihood be disagreeably surprised when he learned

Continued

3. Subsequent installments:—(Re Tehran's tel 2627 paras 5 and 6).[7] We do not propose that installments shld be tied to conclusion contract between DMPA and International Company. Our present thinking is that provided NIOC lives up to commitment to begin commercial negotiations within time specified, monthly installments wld begin as soon as schedule of shipments agreed between DMPA and NIOC and DMPA has satisfied itself regarding availability and quality of oil and suitability of port, loading and other essential facilities. See numbered para 1 of heads of agreement text transmitted 1588 to Tehran. With reference to possible tie-in of monthly installment to commencement commercial negotiations, we await Henderson and Byroade views on suggestion contained para 5 Deptel 1674 (4570 to London).[8]

We doubtful utility Eden's suggestion reported second para London tel 3777 that Mosadeq might be told balance of installments wld be paid in lump sum if commercial negotiations completed before end of period during which installments wld normally be payable. Believe Mosadeq might resent this as too obvious pressure. (See para 6, Tehran's tel 2627.) In view Byroade's belief we can proceed as we see fit (within reason) with our part of package (third para London's tel 3777) we prefer leave installment ques as it now stands with relation to Brit.

4. Escrow arrangement:—(Tehran's tel 2612). Believe this point adequately covered in para 3 Deptel 1674 (4570 to London) unless Brit strongly object. Re financial institution, it is our idea as set forth Deptel 1588 to Tehran and 4337 to London[9] that Federal Reserve Bank NY shld hold funds on deposit. Re formula for deposit, is not formula in para 5 in Deptel 1588 adequate? Only additional point we see is that actual detailed escrow agreement would make it explicit that if award is less than amount deposited in escrow account any balance wld be paid to NIOC.

5. Mosadeq commitment re commercial agreement:—(Tehran's tel 2627 numbered para 2).[10] Suggest Henderson draft form of com-

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that DMPA would not begin paying the additional installments to Iran until after the contract providing for the schedule of DMPA deliveries had been made with the international company. (888.2553/1-953)

[7] In paragraph 6 of telegram 2627, Jan. 9, Ambassador Henderson stated that it would be unwise to include a clause in the DMPA contract which would disallow the payment of subsequent installments until negotiations with the international company had started. Mosadeq had already stated his willingness to enter negotiations as soon as the international company was ready, and such a tie-in would be regarded by Mosadeq as an insult to his integrity. (888.2553/1-953)

[8] *Supra.*

[9] Dated Dec. 31, 1952. (888.2553/12-3152)

[10] In paragraph 2 of telegram 2627, Jan. 9, Ambassador Henderson suggested that Mosadeq make a formal statement of his intention at the time of signing the agreements to enter into a commercial agreement. (888.2553/1-953)

mitment he believes Mosadeq wld accept and be willing make public, bearing in mind definite time period for beginning negotiations shld be specified, this time period to begin with signing arbitration agreement. See para 4 Deptel 1674 (4570 to London).

6. Main headings draft DMPA contract:—(Re London's tel 3777 final para). Heads of agreement sent London Deptel 4337 and Tehran 1588. Believe at present juncture they need only fol modifications:

a. Change first (unnumbered) para of quoted text to read: "After agreement is reached between AIOC and Iran upon methods and terms for arbitration of compensation, DMPA will contract to take from NIOC over period of time oil products or crude oil to a value of approximately $133 million. Twenty-five percent of the value of oil products or crude oil delivered to DMPA under the contract will be placed in escrow to be liquidated in accordance with the terms of the arbitration award. DMPA will advance $100 million to NIOC against future deliveries of oil products or crude oil upon the fol basis:"

b. In numbered para 1 of quoted text change amount of initial advance to $40 million (or to $50 million if that is the figure finally determined).

c. In numbered para 2 of quoted text change name to "International Export Company".

7. We hope Brit can soon show us draft of full arbitration agreement.

8. We assume Brit actively working on formation international company.

9. We concur heartily in need for secrecy as stressed Tehran's 2629.[11]

ACHESON

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[11] In telegram 2629 Ambassador Henderson stressed the need for secrecy concerning the Henderson-Mosadeq talks and concurred with Mosadeq's view that premature disclosures of substance might strengthen the hand of the nationalist extremists to such an extent that Mosadeq would be compelled to retreat from positions that he has taken. (888.2553/1-953)

No. 274

888.2553/1-1153: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET NIACT TEHRAN, January 11, 1953—5 p. m.

2651. Eyes only Secretary and Jernegan.

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[1] Also sent to London eyes only for the Ambassador and Byroade.

1. Re paragraphs 3 and 5 Department's 4599 to London, January 10 repeated Tehran 1684, I have already set forth my views re possible tie-in of monthly installments of commencement commercial negotiation in Embtel 2634 to Department, January 10, repeated London 852.[2] If Department and British not satisfied suggestion contained therein, our first alternative might be to include in package agreement a letter addressed by Dr. Mosadeq preferably to me stating substantially as follows:

"Following the entry into force of its contract with DMPA, the NIOC will be prepared to enter into negotiations with the International Export Company, in which the AIOC may be a participant, looking toward a contract of agreement for the NIOC to sell to the International Export Company a definite amount of crude oil and oil products annually over a fixed period of years. The NIOC will enter into these negotiations just as soon as the International Export Company is prepared to open them".

As alternative to second sentence, following might be substituted:

"Such negotiations shall begin within 30 days after the NIOC agreement with DMPA has gone into effect. If for any reason International Export Company would not be ready to enter into negotiations within the 30 day period, the NIOC would be prepared to enter into such negotiations when the International Export Company is ready." (See paragraph 2, Embtel 2608 to Department, January 8, repeated London 838.)[3]

2. If above suggestions are entirely unsatisfactory, Department might care to rephrase draft in paragraph 3 memo heads of agreement of DMPA contract outlined in Deptel 1588, December 31, to Tehran.[4] That paragraph could read substantially as follows:

"It is understood that following the entry into force of this contract, the NIOC will be prepared to enter into negotiations with the International Export Company in which the NIOC may be participant, looking toward a contract of agreement for the NIOC to sell to the International Export Company a definite amount of crude oil and oil products annually over a fixed period of years, just as soon as the International Export Company is ready to enter into such negotiations."

Alternative to this could be similar to alternative in number 1 above.

3. I have no comments to make with remainder of telegram except that Department might desire as suggested above to make certain changes in heading number 3 in text of memo heads agreement incorporated in Deptel 1588 to Tehran.

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[2] See footnote 5, Document 272.

[3] See footnote 3, Document 272.

[4] Not printed. (888.2553/12-3152)

4. I hope that draft of terms of reference and other provisions of arbitration agreement will be simple and as free as possible from complicated legal language and follow wording Mosadeq so far as technically possible.

5. Query: Are we certain that we wish to charge as much as 4½ percent interest on loan to government-owner company? Would DMPA be violating regulations or setting undesirable precedents by charging 3½ percent? Is interest to be paid in dollars or additional oil?

HENDERSON

No. 275

888.2553/1-1153: Telegram

The Ambassador in the United Kingdom (Gifford) to the Department of State[1]

SECRET NIACT LONDON, January 11, 1953—7 p. m.

3790. From Byroade. At today's meeting Dixon and Maud handed us following British redraft of terms of reference as result numerous week-end meetings which included company:

> "To determine the sum expressed in sterling required to provide fair compensation for the loss by Anglo-Iranian Oil Company of its property, rights and interests as the result of the Iranian oil nationalization laws of March and May 1951; and for that purpose the tribunal shall employ the principles applied for the purpose of determining the compensation awarded under any United Kingdom law nationalizing any industry in the United Kingdom which the company may specify; and to determine the validity of counterclaims which the Iranian Government may have against the company and the sum expressed in sterling required to meet them".

United Kingdom stated that phrase "expressed in sterling" was inserted for purpose of making clear that compensation was not to be in Iranian rials. Phrase "expressed in sterling" obviously refers only to currency of calculation and not to method of payment, but United Kingdom believes this useful in arbitration agreement.

Department will also note that terminology employing word "principles" has been substituted in United Kingdom redraft for word "basis". New United Kingdom wording evidently designed to give loose and more vague terminology in terms of reference. Believe it may be difficult to persuade United Kingdom to abandon either of these changes in their redraft.

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[1] Repeated to Tehran.

New wording on sterling is not unusual or out of the way as a provision in an agreement of this kind. However, it might create some public relations problem for Iran. Shawcross, when informed of this change in terms of reference, is reported to have said it was a useful addition.

United Kingdom Government officials are also pressing for addition to terms of reference of language calling on arbitral tribunal in fixing its award to take "into account in each case the method of payment of any balance due to either party". Reasoning behind inclusion such a provision is complex, and it would seem undesirable to introduce this new feature into terms of reference. AIOC apparently is not urging inclusion such provision, and we hope to avoid it.

GIFFORD

No. 276

888.2553/1-1253: Telegram

The Secretary of State to the Embassy in the United Kingdom[1]

TOP SECRET WASHINGTON, January 12, 1953—3:48 p. m.
NIACT

4607. London for Byroade from Secretary. I sugg you show foll message to Brit.

"I have been following discussions on Iranian oil problem between Henderson and Mosadeq and your discussions with Brit officials in Lon with greatest attention. I believe we are close to far-reaching and helpful developments. I am appreciative of Eden's constructive and statesman-like attitude without which no progress wld have been possible.

"In reviewing the status of the matter today I have come to the belief that the Brit formula for the terms of reference of arbitration, as handed to you by Sir Pierson Dixon and Sir John Maud on Sunday (Lon's 3790)[2] wld produce grave public relations difficulties for Dr. Mosadeq. The crux of the matter is the inclusion of the words 'property, rights and interests' which clearly imply to the Iran public that loss of future profits will be considered. It seems to me that if these words were omitted and the wording of the first portion of the formula appropriately changed to conform, the Brit wld have an even broader and more comprehensive formula which wld enable the Anglo-Iranian Oil Company to put forward every possible claim and wld at the same time avoid creating advance public relations difficulties for Dr. Mosadeq. It is my suggestion that the first part of the formula shld read as follows: 'To determine the sum expressed in sterling required to provide fair compensation for the loss by the Anglo-Iranian Oil Company as the result of the Iranian Oil Nationalization Laws of March and May 1951.'

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[1] Repeated to Tehran eyes only for Ambassador Henderson. Drafted by Jernegan; cleared in draft by Secretary Acheson and by Nitze, Linder, Bonbright, and Fisher; and signed by Jernegan.

[2] *Supra.*

"If the British agree to this rewording, I believe the last difficulty in reaching agreement will be removed and we can go forward confidently. If the British still feel obliged to stick to their wording, I shall ask Henderson to put it forward to Mosadeq as persuasively as possible. However, if this wording shld turn out to be the breaking point, I wld consider that Henderson shld be authorized to put forward the formula I have suggested, making it clear to Mosadeq that this is his personal suggestion made without any commitment to accept it on the part of the British and that if he agreed to it, it wld have to be referred to the Brit Govt for its consideration.

"I feel strongly that insistence on inclusion of words 'property, rights and interests' shld not be allowed on our side to be the difference between success and failure. If, of course, Mosadeq shld raise other difficulties, then Henderson would not put forward our alternative language and the Brit position in this regard wld therefore not be compromised.

"In view of Henderson's cables I consider time of greatest importance. Current political situ Tehran indicates clearly that Mosadeq can hold his present secretive position regarding oil discussions only a very few days. Premature publicity cld easily force him reverse himself on concessions he has made. He is under heavy attack and may be forced to say something at any moment, apart from fact that every day of delay increases possibility damaging leaks. For our part, we are prepared when agreement on arbitration reached, to proceed immediately on DMPA purchase contract. I therefore earnestly hope that the Brit will continue to treat this as a matter of great urgency and that we can conclude it this week."

Shld you find that the situation at this time warrants such action, you are authorized to deliver the foregoing to Eden as a personal message from me. In this case it wld, of course, be necessary for you to change persons throughout.

We are working urgently on round-up telegram to you and Tehran covering all points as we see them now.[3]

ACHESON

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[3] Reference is to telegram 4624, Jan. 12, not printed. (888.2553/1-1253)

No. 277

888.2553/1–1253: Telegram

The Ambassador in the United Kingdom (Gifford) to the Department of State[1]

TOP SECRET NIACT LONDON, January 12, 1953—6 p. m.

3800. From Byroade. Re paragraph 2 Tehran's 2654 January 12 to Department.[2]

I am transmitting below text of "main headings of DMPA agreement" so that you may begin its translation into Persian. While there may be minor changes which we shall have to communicate to you as result further discussions here, believe it may save some time transmit it as now is.

Begin Text.

After agreement is reached between the UK and Iran upon methods and terms for arbitration between AIOC and Iran on the question of compensation, US Defense Material Procurement Agency will contract to take from the National Iran Oil Company over a period of time oil products or crude oil to a value of approximately $133 million. Twenty-five percent of the value of oil products or crude oil delivered to DMPA under the contract will be placed in escrow to be disbursed in accordance with the terms of the arbitration award. DMPA will advance $100 million to NIOC against future deliveries of oil products or crude oil upon the following basis:

> 1. Of the $100 million, $50 million will be advanced immediately to NIOC; the balance will be advanced in installments of $10 million a month as soon as DMPA and NIOC agree on a provisional schedule of shipment and DMPA has satisfied itself concerning the availability and quality of the oil products or crude oil to be shipped under the schedule and has assured itself of the suitability of port, loading, and other essential facilities.
> 2. It is understood that following the entry into force of this contract, the NIOC will enter into negotiations with a company of an international character (hereinafter called The International Company) which would include participation by AIOC and would be registered outside the United States, United Kingdom or Iran, with a view to concluding a commercial agreement under which the NIOC will sell to The International Company definite amounts of crude oil and oil products annually over a fixed period of years; such negotiations to be un-

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[1] Sent niact to Tehran as telegram 142 and repeated to the Department.

[2] In telegram 2654 Ambassador Henderson stated his hope that if the package of documents for presentation to Mosadeq could be completed quickly, London ought to begin sending them as quickly as possible to Tehran in order that the Embassy could begin translating them into Persian. (888.2553/1–1253)

dertaken as soon as The International Company is formed and ready to begin them.

3. DMPA will appoint The International Company as its agent for receiving delivery f.o.b. Iran ports of oil and oil products for the account of DMPA.

4. Until such time as a commercial agreement is made between The International Company and the NIOC, the price for the quantities of refined products to be delivered against the DMPA advance shall be the US Gulf posted price (which is the present Persian Gulf going price) less a discount of 35 percent. In the event sufficient refined products desired by DMPA are not available, DMPA shall have the option of receiving crude oil at a similar discount from the going Persian Gulf posted price. If NIOC should sell refined products or crude oil to other customers than The International Company at prices lower than the posted prices or going prices referred to above, the price to DMPA will be calculated on the basis of such lower prices less such appropriated discounts as may be negotiated between NIOC and DMPA.

5. For each delivery made under the purchase and advance contract, NIOC will be credited with 75 percent of its value as determined under paragraph 4 above and DMPA will pay 25 percent of its value to the Federal Reserve Bank of New York to be held by it in escrow until disbursed in accordance with the terms of the arbitration award.

6. Deliveries under the purchase and advance contract will continue until the advance by DMPA of $100 million (carrying an interest charge of 4½ percent per annum on unpaid balances) is liquidated.

7. At such time as a commercial agreement is made between the NIOC and The International Company, the price provisions contained in paragraph 4 shall be appropriately modified to conform with the price provisions of the commercial contract.

End Text.

I have following comments and queries of Department:

1. Preamble has been changed to make it clear arbitration agreement will be between United Kingdom and Iran, although AIOC and Iran will be parties to arbitration.

2. Department may wish consider whether DMPA contract will be signed by DMPA with NIOC or by United States Government on DMPA's behalf with Iran Government on NIOC's behalf.

3. I was impressed by Ambassador Henderson's third alternative suggestion contained paragraph 1 Tehran's 2651 January 11 to Department, since it seems to me to have the following advantages:

(a) It results in one less document in package and does not highlight point as much as treatment separately.

(b) In any event same point must be covered to some extent in DMPA agreement and separate letter merely duplicates delicate point.

(c) It gives additional protection for United States Government by providing legal basis on which we could withhold if we so desired subsequent advances in event Mosadeq should fail live up his commitment to start negotiations with International Company.

(d) It helps meet British concern on question of installments.

Accordingly I have incorporated Henderson's suggestions in paragraphs 2 and 3 above and so informed British.

4. Both the British and ourselves have felt that The International Company required some further definition and this has been incorporated in paragraph 2.

5. Word "export" has been deleted from company's nomenclature in deference British suggestion that it conceivably might be agreed that it would perform other functions as well. I concurred in this change since contract otherwise makes clear that agreement will be confined to sales.

GIFFORD

No. 278

888.2553/1-1453: Telegram

The Ambassador in the United Kingdom (Gifford) to the Department of State[1]

TOP SECRET NIACT LONDON, January 14, 1953—3 a. m.

3841. From Byroade. This is message No. 1.[2]

Following is text DMPA Agreement agreed last night with UK subject final clearance later today:

Main Headings of DMPA Agreement

"After the entry into force of the agreement of today's date for arbitration between the Government of Iran and the AIOC: The United States Defense Materials Procurement Agency will contract to take from the National Iranian Oil Company over a period of time oil products or crude oil to a value of approximately $133 million; 25 percent of the value of oil products of crude oil delivered to DMPA under the contract will be placed in escrow to be disbursed in accordance with the terms of the arbitration award; and DMPA will advance $100 million to NIOC against future deliveries of oil products or crude oil upon the following basis:

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[1] Sent to Tehran eyes only for Ambassador Henderson as telegram 147 and repeated to the Department.

[2] On Jan. 13 Byroade informed the Department that the documents to be presented to Mosadeq would be sent to Tehran and Washington in four separate messages. Byroade's comments on the final meeting with the British in which the documents were approved and his observations about the documents themselves would follow in message 5. (Telegram 3839; 888.2553/1-1353)

1. Of the $100 million, $50 million will be advanced immediately to NIOC; the balance will be advanced in installments of $10 million a month as soon as DMPA and NIOC agree on a provisional schedule of shipment and DMPA has satisfied itself concerning the availability and quality of the oil products or crude oil to be shipped under the schedule and has assured itself of the suitability of port, loading, and other essential facilities.

2. It is understood that following the approval of this agreement the NIOC will enter into negotiations with a company of an international character (hereinafter called the international company) which would include AIOC and would be registered outside the United Kingdom or Iran, with a view to concluding a commercial agreement under which the NIOC will sell to the international company substantial quantities of crude oil and oil products annually over a period of years; such negotiations to be undertaken as soon as the international company is formed and ready to begin them.

3. DMPA intends to appoint the international company as its agent for receiving delivery f.o.b. Iranian ports of oil and oil products for the account of DMPA.

4. Until such time as a commercial agreement is made between the international company and the NIOC, the price for the quantities of refined products to be delivered against the DMPA advance shall be the United States Gulf posted price (which is the present Persian Gulf going price) less a discount of 35 percent. In the event sufficient refined products desired by DMPA are not available, DMPA shall have the option of receiving crude oil at the same discount from the going Persian Gulf posted price. If NIOC should sell refined products or crude oil to other customers than the international company at prices lower than the posted price or going prices referred to above, the price to DMPA will be calculated on the basis of such lower prices less such appropriate discounts as may be negotiated between NIOC and DMPA.

5. For each delivery made under the purchase and advance contract, NIOC will be credited with 75 percent of its value as determined under paragraph 4 above and DMPA will pay 25 percent of its value to the Federal Reserve Bank of New York to be held by it in escrow until disbursed in accordance with the terms of the arbitration award.

6. Deliveries under the purchase and advance contract will continue until the advance by DMPA of $100 million (carrying an interest charge of 4½ percent per annum on unpaid balances) is liquidated.

7. At such time as a commercial agreement is made between the NIOC and the international company, the price provisions contained in paragraph 4 shall be appropriately modified to conform with the price provisions of the commercial agreement.

8. The foregoing is an agreement binding upon the DMPA and the Government of Iran and the parties agree to work out detailed arrangements to implement this agreement."[3]

GIFFORD

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[3] Several minor changes were made in the text of this as well as the other three documents. These alterations are in Document 283.

On Jan. 14 the Department informed Henderson that, as a result of a telecon that day with Byroade, the Department had approved the text of the DMPA heads of agreement which was being transmitted in London telegram 3841. (Telegram 1715; 888.2553/1–1453)

No. 279

888.2553/1–1453: Telegram

The Ambassador in the United Kingdom (Gifford) to the Department of State[1]

TOP SECRET NIACT LONDON, January 14, 1953—3 a. m.

3840. From Byroade. This is message No. 2.

Following is text Arbitration Agreement agreed last night with UK in London subject to final clearance later today:

"ARBITRATION AGREEMENT

The Government of Iran and the Government of the UK:

Desiring to bring about a settlement of all claims and counterclaims which have arisen between the Government of Iran and the Anglo-Iranian Oil Company and to submit the matter to international adjudication, to take place between the Government of Iran and the company:

Conscious, however, of the fact that, under Article 34, paragraph 1, of its statute, the International Court of Justice can only entertain cases of which states are parties:

Have agreed that the said claims and counterclaims shall be referred to international arbitration between the Iranian Government on the one hand, and the Anglo-Iranian Oil Company on the other, in the manner provided by, and before a tribunal constituted as specified in, Parts I and II of the present agreement, and the arrangements for the payment of a balance due from either party to the other in consequence of the award of the tribunal shall be those set out in Part III:

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[1] Transmitted in two sections; sent to Tehran eyes only for Ambassador Henderson as telegram 146 and repeated to the Department.

PART I

1. (a) The above-mentioned claims and counterclaims shall be referred to a tribunal consisting of those members of the International Court of Justice who hold office as judges of the International Court of Justice on the date of the conclusion of the present agreement, together with the Iranian Judge *ad hoc* who was designated to sit on the International Court of Justice in 1952, provided that the number of members of the tribunal so constituted shall not be fewer than the number of judges (including the Iranian judge *ad hoc*) which made up the bench on the International Court of Justice in July, 1952, for the hearing of the preliminary issue of jurisdiction in the Anglo-Iranian oil dispute. In the event of the resignation or retirement of any judge from the International Court of Justice, such judge shall continue to sit on the tribunal in his unofficial capacity. In the event of the death, or incapacity or withdrawal from the tribunal of any member, the remaining members of the tribunal shall proceed to adjudicate the case. The tribunal shall select its president, and shall take its decisions, and give its award, by a majority vote.

(b) If the tribunal cannot be constituted as set out in subparagraph (a) above, the matter shall be referred to a tribunal composed of the following judges of the court acting in a private capacity, and assuming they are willing so to act; that is to say the UK judge, the Iranian judge *ad hoc*, above referred to, and any other three judges agreed upon between the UK and Iranian judges; or, if they are unable so to agree within two months from the date on which the present agreement has been communicated to the court as provided in article 11 hereof, any three judges designated after consultation with the UK and Iranian judges by the vice-president of the court, who shall in any case designate one of the three additional judges to act as president of the tribunal. In the event of the death, incapacity, or withdrawal from the tribunal of the UK judge, the Anglo-Iranian Oil Company shall have the option of designating a substitute member of the tribunal; in the event of the death, incapacity, or withdrawal of the Iranian judge *ad hoc*, the Government of Iran shall have the option of designating a substitute member. In the event of the death, incapacity, or withdrawal of any of the remaining members of the tribunal, a substitute member shall be designated by means of the same processes by which his predecessor was designated. In the event of the death, incapacity, or withdrawal from the tribunal of its president, his successor (who shall replace him as president) shall be designated by the vice-president of the International Court of Justice. The tribunal shall take its decisions and give its award by a majority vote.

(c) If the tribunal is not constituted in one of the foregoing ways, the matter shall be referred to a tribunal consisting of five eminent jurists from outside the court, to be nominated after consultation with the parties and with the court by the vice-president of the court, who shall also designate one of them to act as president of the tribunal. In the event of the death, incapacity, or withdrawal of any member of the tribunal, a successor shall, by the same process, be nominated by the vice-president of the court. The tribunal shall take its decisions, and give its award, by a majority vote.

2. The function of the tribunal shall be:

(1) To determine the sum required to provide fair compensation to the Anglo-Iranian Oil Company for the loss of its enterprise in Iran as the result of the Iranian Oil Nationalization Laws of March and May 1951; and for that purpose the tribunal shall employ the principles applied for the purpose of determining the compensation awarded under any UK law which the company may specify, nationalizing any industry in the UK.

(2) To determine the validity of all counterclaims which the Iranian Government may have against the Anglo-Iranian Oil Company, and the sum required to meet them.

(3) In determining the matters specified in Article 2 above, and subject to the provisions of that article, the tribunal shall give its decision in accordance with international law, applying.

> (a) Any relevant international conventions by which the Governments of Iran and the UK are both bound;
>
> (b) International custom, as evidence of a general practice accepted as law;
>
> (c) The general principles of law recognized by civilized nations;
>
> (d) Judicial decisions and the teachings of the most highly qualified publicists of the various nations, as subsidiary means for the determination of rules of law.

(4) The decisions of the tribunal shall be definitive and binding on both the parties to the arbitration (hereafter called the parties), and the tribunal award, which shall be expressed in terms of sterling, shall be regarded as a full and final settlement of all claims and counterclaims of the parties.

PART II

5. If the tribunal is constituted in the manner specified in Article I (a) or I (b) hereof, its procedure (and all matters incidental thereto) shall, *mutatis mutandis*, and so far as deemed appropriate by the tribunal, be the same as that provided for the International Court of Justice by its statute and rules of court.

6. If the tribunal is constituted in the manner specified in Article I (c), it shall (subject to the terms of the present agreement) settle

its own procedure, but shall in any case apply the following provisions:

(a) As soon as possible after the coming into force of the present agreement, and after the nomination of the members of the tribunal as provided in Article I (c) hereof, the president of the tribunal (hereinafter called the president) shall, in consultation with representatives of the parties, as designated by them, determine the procedure for the exchange of written pleadings between the parties (number, order and time-limits et cetera) and for their transmission to the members of the tribunal.

(b) As soon as possible after receipt of the last of the written pleadings, the president shall, after consultation with the other members of the tribunal and with the representatives of the parties, name the date and place for the oral hearing and determine the order in which the arguments of the parties are to be presented.

(c) The tribunal shall give its award as soon as possible after the close of the oral hearing.

(d) The tribunal shall hold such sittings, whether for private deliberation or for hearing the parties, as it may consider necessary for the carrying out of its functions under the present agreement.

(e) Subject to the provisions of Article VII below, the president shall make all the necessary formal arrangements in connection with the sittings of the tribunal (premises, and interpreting, clerical and stenographic staff).

(f) The languages of the tribunal shall be English and French. The written and oral pleadings and statements of the parties may be drawn up or presented in either language, and the arrangements for translation and for the interpretation of speeches shall be determined by the president in consultation with the other members of the tribunal and the representatives of the parties.

7. Whatever the character of the tribunal, each of the parties shall bear its own costs of the arbitration. The expenses of the tribunal shall be borne by the parties in equal shares. Any question relating to the fees, expenses and allowances of the president, and of the other members of the tribunal, and all matters incidental thereto such as the time and method of payment, shall be determined by the parties in consultation with the president.

PART III

8. Any balance due by either of the parties to the other in consequence of the award of the tribunal shall be paid as follows:

(1) Any balance due from the Iranian Government to the Anglo-Iranian Oil Company shall be discharged by payments in cash in sterling, to the credit of the company, in a bank designated by the latter, of 25 percent of the receipts from all sales of oil and oil products exported from Iran; or, if so agreed between the Iranian Government and the Anglo-Iranian Oil Company, by deliveries of

oil to the company in such quantities and over such period of years as shall be mutually determined by them.

(2) If a balance is due from the Anglo-Iranian Oil Company to the Iranian Government, it shall be discharged by payments in cash in sterling to the credit of the Iranian Government with a bank designated by the latter of such amounts over such period of years as shall be agreed between the Iranian Government and the company; or, in default of such agreement, in such amounts over such period of years, as shall be determined by an arbitrator appointed by the vice-president of the International Court of Justice.

9. Pending the award of the tribunal, 25 percent of the receipts from all sales of oil and oil products exported from Iran shall, unless another currency is agreed between the Government of Iran and the Anglo-Iranian Oil Company, be deposited in sterling in a trust account with a financial institution or trustee bank to be agreed upon between the Government of Iran and the company, or in default of such agreement, to be specified by the vice-president of the International Court of Justice, and shall await the award of the tribunal. If there is any balance remaining in the trust account after the discharge of the award shall be paid to the Government of Iran.

10. Any amount still outstanding under Article VIII (1) or (2) above, one year after the date of the award of the tribunal, and thereafter from year to year, shall carry interest at a rate to be agreed between the Iranian Government and the Anglo-Iranian Oil Company, or, in default of such agreement, to be determined by an arbitrator appointed by the vice-president of the International Court of Justice.

PART IV

11. The present agreement shall be subject to ratification and shall come into force immediately upon the exchange between the Governments of Iran and the United Kingdom of their respective instruments of ratification. The agreement shall thereupon be communicated to the International Court of Justice.

In faith whereof the undersigned plenipotentiaries have signed the present agreement.

Done in duplicate at ——— this ——— day of 1953, in the English, Persian and French Languages, all three texts being equally authentic."

This message is verbatim text.[3]

GIFFORD

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[3] Several minor changes were made in the text of this document. These alterations are in Document 283.

No. 280

888.2553/1-1453: Telegram

The Ambassador in the United Kingdom (Gifford) to the Department of State[1]

TOP SECRET NIACT LONDON, January 14, 1953—3 a. m.

3843. From Byroade. This is message No. 3.

Following contains text of cover memo which Mosadeq and Henderson would initial: Mechanics of handling will be covered in message (5).

"Attached to this memo are drafts of three agreements. The first two are agreements between the Government of Iran and he Government of the UK, providing respectively for the settlement of the dispute between the Government of Iran and the AIOC by international arbitration and for the regulation of certain questions connected therewith. The third is an agreement between the US Defense Materials Procurement Agency and the Government of Iran providing for the purchase of crude oil and oil products.

"It is understood that a representative of the Government of Iran and a representative of the Government of the UK will sign the first two of these agreements after the arrival of a UK representative in Tehran for that purpose; and a representative of the Government of Iran and a representative of the Government of the US will on the same day sign the third agreement.

"Tehran (date).

"(Initialled by a representative of the Government of Iran).

"(Initialled by a representative of the Government of the US)."[2]

GIFFORD

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[1] Sent to Tehran eyes only for Ambassador Henderson as telegram 149 and repeated to the Department.

[2] Several minor changes were made in the text of this document. These alterations are in Document 283.

No. 281

888.2553/1-1453: Telegram

The Ambassador in the United Kingdom (Gifford) to the Department of State[1]

TOP SECRET NIACT LONDON, January 14, 1953—3 a. m.

3842. From Byroade. This is message No. 4.

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[1] Sent to Tehran eyes only for Ambassador Henderson as telegram 148 and repeated to the Department.

Verbatim Text.

Following includes text of exchange letters between UK and Iranian representatives at the time of the signature of the agreement.

1. UK letter

"Your Excellency,

"I have the honour to inform you that, following on the entry into force of the agreement between our two governments for the arbitration of the oil dispute, the Anglo-Iranian Oil Company will offer no further objection to the export and sale abroad of Iranian oil and oil products".

2. Iranian note

"Your Excellency,

"I acknowledge receipt of Your Excellency's letter of today's date informing me that following on the entry into force of the agreement for the arbitration of the oil dispute, the Anglo-Iranian Oil Company will offer no further objection to the export and sale abroad of Iranian oil and oil products.

"I have the honour to inform Your Excellency, in connection with such exports and sales, that my government and the National Iranian Oil Company for their part will offer no impediment to the complete freedom of entry to, loading in, and departure from, Iranian ports and waters, on the part of all tankers or other vessels concerned with traffic in oil or oil products, irrespective of nationality or ownership; and that they will also use their best endeavours to facilitate all port, shipping and other arrangements necessary for the resumption of the flow of Iranian oil and products to world markets".[2]

GIFFORD

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[2] Several minor changes were made in the texts of these documents. These alterations are in Document 283.

No. 282

888.2553/1-1453: Telegram

The Ambassador in the United Kingdom (Gifford) to the Department of State[1]

TOP SECRET NIACT LONDON, January 14, 1953—3 a. m.

3844. From Byroade. This is cable 5.

Now that agreement reached on text there is no point recounting today's discussions in detail. Probably because pressure of time and need for extensive clearances within Her Majesty's Government we were presented with set of British drafts shortly before meeting that were different in numerous respects from documents we had been working on with British and from papers we had presented. As an example, British drafts had cards stacked in about five different ways so that ICJ judges acceptance of either Mosadeq's alternatives on form of arbitration would have been virtually impossible. This reflected UK preference against either alternative and in favor tribunal chosen by ICJ vice-president. While thus tactically at disadvantage and presented with redrafting problem of considerable magnitude decided in view time urgency go ahead with Eden meeting on schedule.

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[1] Sent to Tehran eyes only for Ambassador Henderson as telegram 150 and repeated to the Department eyes only for the Secretary.

Believe most of bugs removed in meeting and subsequent drafting session but realize resulting papers poorly drafted in several respects.

Secretary's message was extremely effective.[2] British were horrified at prospect of letting negotiator (as they would equally be in case of their own negotiators) have second alternative to suggest at his discretion. Faced with this possibility they shifted key words in terms of reference. Had thought they would stick to "property, rights and interests" and, if so, we could insist everything else be our way. I think it fortunate this was not the case as would rather accept imperfections, which should be negotiable, than leave point in documents that could well have caused complete rejection by Mosadeq.

Feel most disadvantageous points remaining are as follows:

1. Failure obtain agreement that UK would sign documents on behalf of AIOC. Don't believe British have real objection to this other than prestige considerations and a desire to get UK-Iran relations back on more normal footing. Eden said he would talk about it at Cabinet tomorrow but wished us try present language in any event. Henderson may be assured that change on this can be obtained here if this develops *to be really necessary*.

2. Exchange of letters including protection of tankers et cetera. Point on flow of oil without objection by UK could well have been included as phrase of arbitration agreement and points on tankers et cetera, included in commercial contract, if at all. Pointed out that this exchange invited Mosadeq opportunity make undesirable changes and provision on tankers would be insulting to him in context of other agreements. AIOC adamant such an exchange is necessary and their officials still arguing, but not supported by Foreign Office that such exchange must be ratified. Here again government would overrule AIOC if really necessary, but in view situation here hope Henderson can get letters approved as is.

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[2] Reference is to Document 276.

There was considerable discussion on cover memo. British produced formal document to be signed by all three governments in terms quite impossible for us to agree to. They clearly want tripartite signature which we believe undesirable and which still may cause us trouble. As part of first package at least we insisted on simple memorandum identifying documents and stating intentions thereon. We thought this much desirable as agreement should not be in doubt when British proceed to Iran. If point arises Henderson may state that he will witness British agreement here to make certain both parties in agreement on same text.

Eden clearly unhappy that we insisted on 50 million advance and would not agree to installments every two months instead of monthly. He seems worried about advance that large as public relation problem here. Stated he would talk to Cabinet his problem but in meantime we had his agreement.

British did not want to use Mosadeq's formula in paragraph 2 of DMPA agreement for definite quantity of purchase for definite number of years. Stated commercial agreement might not be in consonance with word "definite". If introduction of word "substantial" causes difficulty with Mosadeq, Henderson can change it to "agreed" with approval of British. "Substantial" really better from our point of view.

British worried about any deviation from discount of 35 percent in interim price in DMPA contract. I assured them this would not be changed without consultation.

Stressed need today of British representative to be ready early departure Iran. Would hope could be someone from here such as Dixon who understands problem.

Last-minute complications can always arise and also matter of handling press, et cetera, could be very important.

We are committed here that Henderson will make statement contained last portion Tehran's 2634 to Department repeated London 852 at time and in manner he suggested therein.[3]

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[3] On Jan. 9 the Department, in paragraph 5 of telegram 4570 to London, suggested that Henderson present Mosadeq with a letter at the time an agreement was reached over the DMPA Heads of Agreement. (888.2553/1-953) Henderson, in telegram 2634, Jan. 10, objected to such a letter and instead proposed to tell Mosadeq orally that until he, Mosadeq, had begun conversations with the International Company to sell large quantities of Iranian oil abroad which would justify the resumption of production at the Abadan refinery, it might not be easy to work out schedules of delivery to DMPA. Henderson said he did not plan to press this point, but merely mention it in passing, so that in case negotiations did not commence immediately with the International Company for a long-term contract, Mosadeq would understand why negotiations regarding the DMPA schedules were not proceeding faster. (888.2553/1-1053)

In view time urgency have agreed to all documents here without reference Department with exception DMPA agreement. Would be difficult reopen points but will, of course, do so if Department so instructs.

British will translate documents here into French which British representative can carry Tehran in order relieve burden Tehran Embassy.

Good luck to Henderson!

GIFFORD

No. 283

888.2553/1-1453: Telegram

The Ambassador in the United Kingdom (Gifford) to the Department of State[1]

TOP SECRET NIACT LONDON, January 14, 1953—8 p. m.

3865. Please make following changes in documents transmitted early today:

A. Arbitration agreement (message 2).

1. Article 1(a) first sentence. Replace comma following first mention of "1952" by semi-colon. This part of sentence then reads "in 1952; provided that", etc.

2. Same reference. Replace "oil dispute" by "company case".

3. Article 1(b) last sentence. Alter punctuation so that sentence reads: "The tribunal shall take its decisions, and give its award, by a majority vote".

4. Article 8(1). Change "over a period" to "over such period".

5. Article 9. Change last sentence to read "Any balance remaining in the trust account after the discharge of the award shall be paid to the Government of Iran."

B. Cover memo (message 3).

1. Add heading at top "*covering memo*".

2. In second sentence first paragraph change "settlement of the dispute between" to "settlement of claims and counterclaims between".

C. Exchange of letters (message 4).

1. United Kingdom letter. Change "for the arbitration of the oil dispute" to "for arbitration in the oil dispute".

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[1] Repeated to Tehran.

2. Iran letter, paragraph 1. Change "for the arbitration of the oil dispute" to "for arbitration in the oil dispute".

3. Iran letter, paragraph 2. Delete comma after "National Iran Oil Company for their part".

4. Iran letter, paragraph 2. Change "resumption of the flow of Iran oil and products" to "resumption of the flow of Iran oil and oil products".

5. Iran letter. Change heading from "Iran note" to "Iran letter".

D. DMPA agreement (message 1).

1. Paragraph 2. Change "will enter into negotiations with a company of an internatl character (hereinafter called the International Company) which would include AIOC and would be registered outside" to "will enter into negotiations with organization or company of an international character (hereinafter called the International Company) which would include the AIOC and would be constituted outside".

2. Paragraph 4. Change "shall be the US Gulf posted price" to "shall be the low of platts at the US Gulf".

3. Paragraph 4. Change "posted price or going price referred to above" to "posted price for crude or the low of platts for products referred to above."

In transcribing texts of documents which British will sign, please retain British spelling forms.

GIFFORD

No. 284

888.2553/1-1753: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET NIACT TEHRAN, January 17, 1953—3 p. m.

2754. Eyes only Secretary and Byroade.

1. I shall endeavor in this telegram present summary my seven hour conversation of January 15 with Mosadeq, refraining so far as possible from enlarging on details. I hope, nevertheless, it will give fairly accurate sketch of what took place.

2. During exchange introductory remarks I emphasized importance of what we about to do and say; stating documents to be discussed were product tremendous amount of work on part of State Department, US Embassies in Tehran and London, British Foreign Office and other British and US agencies. They had been prepared

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[1] Transmitted in four sections; repeated to London eyes only for the Ambassador.

with idea of conforming so far as possible with views which Mosadeq had expressed to me during our various conversations. They might seem wordy at places, but considerable number words sometimes necessary to provide for various contingencies and to describe complicated situations. I thought best procedure would be for us examine all documents in preliminary way and later to review the minute detail. During preliminary examination and review I would at his request try to explain significance of any passage not clear to him or state reasons for incorporating any provisions which he might question.

3. Mosadeq began review of documents in order their presentation. He carefully and slowly read Persian text of covering memo and expressed surprise at reference to agreement between Government of Iran and Government of UK. He said he thought he had made clear from very beginning that he would not sign arbitration agreement with UK Government as such. He would sign only with "former company" or with UK Government acting on behalf of former company. I told him that his views in this regard were known in London; that British Government had felt very strongly that it should be party not only to arbitration agreement but to arbitration proceedings; that finally as concession to his wishes it had agreed that AIOC would be party to arbitration proceedings but that British Government should sign arbitration agreement. It was not easy to present sound argument as to why British Government should not be party arbitration agreement. It was international practice for agreements that kind to be signed between governments rather than by governments with private parties. I myself had been able to find no instance in which arbitration agreement for determination compensation for losses incurred as result national had been negotiated and signed between government and private company. My understanding was that agreement in Mexico for instance re compensation for losses incurred by American and British oil companies as result Mexican national laws had been entered into between governments concerned. British Government conceived that it was its duty in view its responsibility to protect interests British nationals in various parts of world for it to be party to agreement of this kind. Furthermore it was not customary for governments to sign contracts on behalf any nationals. It would be most unusual for a government to act as an agent for one of its nationals when signing an international agreement. Prime Minister said if British continued adhere to this position there no use going any further. He could never admit that British Government was in any way a party to Iran dispute with former company. I suggested we ignore this issue for time being and proceed further

with documents. If we should find agreement on other matters we might take up this point again with London.

4. Prime Minister said he wished it also understood he would not be willing to enter into agreement with AIOC. From Iran point of view that company did not exist. His agreement would have to be with officials of "former AIOC". I expressed surprise pointing out that on several occasions he had told me that agreement should be with AIOC. He replied he was sure he had used expression "with former company". I pointed out AIOC corporation registered in UK doing business in various parts world. It had hundreds of ships, many oil wells and refineries which were visible to naked eye. I feared that he would make himself and Iran ridiculous before whole world if he should insist on using expression in referring to AIOC which would indicate that in opinion Iranian Government that company no longer existed. I did not for his sake desire to send back to Washington and London suggestions from him which would indicate that AIOC no longer existed. For period over hour our discussion on this point persisted. He finally said he would be willing in first reference in each document to use following expression in mentioning AIOC: "AIOC Limited, British corporation operating outside Iran, which shall hereinafter be called the company". In personal letter which I wrote to him on January 16[2] I again mentioned this point and suggested that if he was adamant about not referring to company merely as AIOC, he at least agree to some such expression as "AIOC Limited, a British corporation not operating at present time in Iran".

5. Mosadeq registered objections to practically every passage of introductory portion and part I of arbitration agreement. Most objections of such petty character as not to be worthy detailed mention. He was particularly critical second paragraph of introduction beginning "conscious" and ending "parties" and insisted that passage be entirely deleted. He also redrafted first and third paragraphs of preamble without, however, making any particular change in their meaning.

6. One of our longest discussions was with reference to point which he raised in part I, paragraph 1, subparagraph a. He insisted that in event of death, incapacity or withdrawal from tribunal of any one member, successor should be chosen by unanimous vote of remaining members. He expressed fear that as result of bribery panel could be reduced by withdrawals of various judges and those who remained would be so few in number that it would be possible to corrupt them by payment enormous sums of money. He said that point had not occurred to him before but some provision

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[2] The text is in telegram 2755 from Tehran, Jan. 17. (888.2553/1-1753)

should be made with respect to it to protect interests Iran. I told him that if successor must be named as result unanimous decision, single member tribunal, Iran member for instance, could cause breakdown arbitration proceedings. He said he would prefer that proceedings break down rather than that replacement of any member who had withdrawn should be some person not approved by Iranian member. Discussion this point lasted another hour. I was finally compelled to tell him that if he continued to insist on unanimity, machinery which proposals were endeavoring to create for arbitration would be extremely weak, in fact meaningless. If therefore, his view in this regard was absolutely fixed it might be better for us to terminate conversations and conclude settlement by arbitration as out of question. Reluctantly he abandoned his position and inserted formula which in my opinion with certain textual changes would be acceptable to British. It would serve no purpose to set forth that formula here.

7. Prime Minister insisted on breaking part I, paragraph 1, subparagraph b into two parts, b and c respectively. His various suggested redrafts made these subparagraphs so confusing they were practically meaningless. After discussion of perhaps another hour he abandoned all his redrafts and agreed that subparagraph not so bad as it stood although he again insisted on several changes which I shall not endeavor incorporate here because he said any change which he made must be reconsidered by him before submission to me.

8. We also had considerable discussion regarding subparagraph c. He finally agreed that paragraph did not need much redrafting although he suggested several unimportant textual changes.

9. He reached zenith his emotions when considering part I, paragraph 2. He said terms of reference quite different from those which he had said he would accept. After considerable amount of scribbling he decided following would be acceptable to him. "2. Function of tribunal shall be: (1) To determine the sum required to pay the compensation which the company may claim as the result of the nationalization of the oil industry in Iran in accord with one of the laws of the UK acceptable to the company enacted for the nationalization of an industry of the UK. (2) To examine the counter-claims of Iran in accordance with the provisions of British private law and to determine the sum required to meet them." I told Prime Minister I was confident such formula could not be accepted by British Government and I thought public opinion of world would likely regard British Government right in refusing accept it. Finding it useless to endeavor to persuade him to agree to incorporation of words "loss of its enterprise" I suggested that he at least insert words "in accordance with principles for determi-

nation of compensation set forth in one of the laws." I pointed out that his wording so inflexible that court might have difficulty in giving proper application of British law which might be selected. It might be almost impossible for instance to determine compensation for loss of oil concession in Iran "according to" British laws nationalizing coal or steel. Prime Minister said inflexibility was precisely what he wanted. He did not wish British be able through smart lawyers to take advantage of flexibility of wording in order broaden basis for determining compensation. I also took exception to phrase "provisions of British private law" pointing out that it quite possible that no British laws existed which would be applicable to all of counter-claims which Iran might desire to present. Furthermore, reference to British private law might well be considered as bordering on sarcasm and I was sure that in serious document of this kind he did not wish any phrases inserted which might be so interpreted. We agreed again to discuss terms of reference on a later occasion.

10. Prime Minister said [part] I, paragraph 3 should be eliminated entirely. Saw no reason for reference to international law. I said that phraseology in this paragraph had been taken almost word for word from ICJ statute. British apparently were of opinion that since ICJ itself would not be able to act as arbitrator between state and private company, arbitration panel should at least be governed by same principles of international law as those which governed ICJ. I thought that he would be in rather weak position if he would object to panel being governed by international law to any less extent than court. He said he convinced that purpose this insertion was to generalize or weaken stipulation contained in paragraph 2, subparagraph 1 above. I said I thought he would be putting Iran in rather bad light if he did not at least agree to retention of paragraph 3 through words "international law". After some discussion on this point we decided later to revert to it.

11. He also made number of textual changes which however turned out to be of no substantive significance in [part] I paragraph 4.

12. He made no suggestions in remainder of arbitration agreement other than to express displeasure at provision regarding interest on sum found due one party by other. Said this was point which had never been raised before. I remarked nevertheless it did seem both fair and logical. He indicated that he must give further thought to this matter.

13. He read drafts of exchange of letters with quizzical expression. I explained their purpose. His only remark was to effect that this was something which we could discuss after we had examined "heads of agreement".

14. Prime Minister read entire text "heads of agreement" before making any remarks. After asking several questions regarding prices he said he willing accept our price for refined but not that for crude. He was able sell oil at Persian Gulf prices and saw no reason why he should sell to US at less. I explained that price offered by DMPA for crude was similar to that for which DMPA could purchase crude in East US if cost of transport, duty and ordinary commercial discounts were taken into consideration. DMPA was not trying to buy crude oil at bargain prices. As US Government commercial agency entrusted with purchasing for government it could not offer Iran prices for crude oil higher than those for which it could purchase crude oil elsewhere. In any event there would be no transactions in crude oil if Iran would be in position to deliver refined products. DMPA would prefer refined products to crude. Prime Minister suggested that sentence relating to crude oil be eliminated. I replied that impossible. If for some reason refinery should not function at some time in future so that Iran could not deliver refined products, DMPA must insure itself against loss its advance payments by stipulating that Iran furnish crude oil. Prime Minister said, with display of temper, he would never agree to "give away" Iran crude oil to anyone at 35 percent discount from Persian Gulf price. I said Iran had nothing really to lose by agreeing sell crude oil at this price if it unable supply refined products. Iran could produce almost limitless quantities of crude at little cost. It would not be giving crude away by selling it at 35 percent discount. It would still be making a handsome profit. If he worried regarding establishment precedent we might be able insert formula indicating that prices determined in unusual circumstances and should not be regarded as precedent.

15. Prime Minister said he considers 4½ percent interest exorbitant particularly if he should have to pay it on whole $133 million. I explained that interest would be payable only on such portions of $100 million as may be currently due by NIOC to DMPA. He said Federal Reserve Bank paying Iran only two percent interest on Iran deposits while US Government demanding 4½ from Iran. I said contract under discussion not between governments but between commercial organizations. Even though these two commercial organizations might be government-owned they must nevertheless carry on business in accordance with usual business practices. DMPA usually charged five percent on advances and never less than 4½ percent. When NIOC entered into commercial transactions it could expect to receive same kind of treatment as any other company private or government owned engaging in international business. Prime Minister either in anger or feigned anger said he could never accept this kind contract. He would not pay usury and

he would not make a present even to US Government of Iran's natural resources. I began to collect my documents. I told him that if he had impression US Government endeavoring take unfair advantages of Iran's need for cash advance it would be preferable for us not to discuss this problem further. US Government had no desire to exercise pressure on him to enter into any kind contractual relations which in his opinion were disadvantageous to Iran. Prime Minister softened, said he thought perhaps this contract might be worked out to mutual satisfaction; it seemed to him to be well and clearly drawn. We could revert to it later.

16. After he had finished examining five documents Prime Minister said that he had decided that it might be preferable for him to go over them again in private on following day, January 16; he thought that he would be able during course that day draw up a document setting forth what he might be able accept and let me have it. In sending in his draft, however, I should indicate that it represented my ideas rather than his. I told Prime Minister that if I sent in any document as redraft it must be with understanding that he had assured me that he would be prepared to sign it if it was acceptable to British and subsequently to give it full public support. Prime Minister expressed appreciation for interest which US had taken in this matter.

HENDERSON

No. 285

888.2553/1-1753: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET NIACT TEHRAN, January 17, 1953—10 p. m.

2761. Eyes only Secretary and Byroade.

1. I have just returned from relatively short visit (90 minutes) with Mosadeq who handed me his reply to package proposals. This telegram being drafted as reply is being translated. Saleh, Prime Minister's assistant, translated it aloud to me in Mosadeq's presence and I tentatively discussed certain passages with Prime Minister. Since latter told me it had been approved by his parliamentary advisers and he would like for it to go to Washington and London as approved, I did not try persuade him make any changes.

2. After we had exchanged amenities Mosadeq handed me envelope stating "here is reply which I have promised you."[2] I said that

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[1] Transmitted in two sections; repeated to London eyes only for the Ambassador.

[2] See telegram 2762, *infra*.

before looking at reply I would like to refer to his comments during our last conversation re prices and rate of interest in DMPA contract. United States Government was anxious oil settlement should be achieved in way which would restore Iran's credit in eyes of business world. Oil settlement should therefore be on a completely businesslike basis. There should not be even a hint that Iran was being given any grants or any special consideration. United States desired to help Iran and I was confident that if oil settlement was effected United States would be contributing much more for Iran's welfare during coming year than it would receive in interest; nevertheless it seemed to US preferable that there should be no connection between oil settlement and any assistance which it might render Iran.

3. Prime Minister said he had spoken rather strongly re rate of interest. He and intelligent Iranians could understand why proposed contract was on businesslike basis. Iranian people in general, however, would never be able understand why United States should give billion dollars to help Turkey and yet charge 4 and ½ percent interest on loan this kind to Iran. He did not wish urge United States not to charge interest. Therefore in his reply to our proposals he had suggested that sale of oil by Iran be reduced from $133 to $65 million, of which $50 million would be advanced at once in cash and 25 percent of net proceeds from sale would be placed in escrow for possible use in payment of compensation. There would be no interest involved because there would be no loan. Refined and crude oil to value $65 million would be delivered immediately to US.

4. Prime Minister said there was another problem created by name of US purchasing organization. It might be extremely embarrassing for Iranian Government to enter into transaction this kind with Defense Materials Procurement Agency. It would be charged in certain circles in Iran that Government was entering into some kind defense pact with US. Therefore he hoped that US Government either would buy direct from NIOC or that DMPA would make purchase and extend loan through some American company.

5. Referring to Mosadeq's suggestion that amount of purchase be reduced to $65 million I said that he had been insisting that Iran have at least $100 million in cash. Prime Minister said Iran sorely needed that amount but he preferred to receive only 50 rather than for US to lose Iranian good will by charging interest in advance. Iran could not deliver $133 million worth of oil immediately; it could, however, deliver oil to value of $65 million. I said I convinced that it would be more than 6 months before Iran could have $65 million worth of crude and refined oil ready for delivery. Furthermore in my opinion it would be probably 12 months before

tankers could be found to move so much oil from Iran. If he wanted $50 million immediately there would undoubtedly be interest charges for a period of at least one year. Mosadeq said he hoped some device could be found so that there would be no reference to interest charges in contract. I suggested that perhaps something might be arranged by paying lower prices. He made no comment but I could see this suggestion was not pleasing.

6. I said that in my opinion Iran Government was leaning rather far backward in hesitating to deal with DMPA because of its name. DMPA was not a part of US Department Defense. It independent executive agency charged with buying many kinds of raw materials. Any charges that contract between DMPA and NIOC was of political character could be easily disproved. Prime Minister however seemed to be somewhat stubborn on this point. He asked if it would not be possible for purchase to be made through some private American company if not through US Government direct. I suggested purchase might be made through international company mentioned in original draft. He replied that company not as yet organized. Contract should be signed immediately because he needed money. I said I suppose he understood that international company would probably furnish tankers to carry oil because AIOC had more tankers available than any other company. He said that immaterial.

7. Prime Minister pointed out that in his counterproposals he had suggested that price refined oil be set at discount of 35 percent from average or middle US Gulf price rather than from low as stipulated in US proposals. I told him I unable add to comments in this regard to those which I had made in our previous conversation. I would submit his proposals intact. He said that he willing accept our original proposals re price of crude, that is 35 percent discount from Persian Gulf price.

8. I asked Mosadeq re status arbitration agreement. He said his advisers disapproved entirely structure which draft provided for arbitration panel. They were convinced from careful examination of document as it stood that it meant that in end panel would consist of five eminent jurists selected by vice-president of ICJ. Iran did not want anybody other than ICJ to adjudicate dispute. I said only recourse in that case would be for Iran to agree that other party would be UK rather than AIOC. Prime Minister said that was precisely what he and advisers had agreed. They decided they did not want this dispute settled by arbitration before some panel of arbitrators. They wanted case to be adjudicated by ICJ in accordance with its statute. Therefore, they would agree to admit UK Government as other party. I asked him re terms of reference. Saleh translated them aloud. They were similar to those drafted by

Prime Minister during our session of January 15. I again said in my opinion they too inflexible. He said his legal advisers insisted they were sufficiently flexible to permit court to determine compensation due AIOC in accordance with any British law passed prior to Iran national law acceptable to AIOC. I said I did not recall date of coal national law and asked if this new stipulation would bar use of that law. He said such was not intent. He would not object if draft was altered to read "any British law passed prior to January 1, 1953". He reiterated he had no objection to use by British of coal national law.

9. As Saleh translated various passages of Mosadeq's suggestions re arbitration agreement I observed that according to those suggestions 25 percent of net proceeds of sales of oil rather than of gross proceeds, were to be put in escrow for compensation. I said this a recession from previous statements made to me. Mosadeq said he had previously been in error, he had forgotten provisions of national law. Iran could not pay larger percentage for compensation than that law provided.

10. Referring to proposed exchange of notes between British Government and Iranian Government on subject of foreign ships entering Iranian ports and of lifting by AIOC of its ban on exports of Iranian oil Prime Minister said he considered such exchange unnecessary. I asked him if he meant by that that he thought developments suggested in note would take place without such exchange. He replied in affirmative. He said naturally as soon as agreement had been reached for referring matter compensation to ICJ Iran would not object to entry British or AIOC vessels into Iranian ports and he was sure AIOC would not continue to prevent export Iranian oil.

11. My comments in subsequent telegram.

HENDERSON

No. 286

888.2553/1–1753: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET NIACT TEHRAN, January 17, 1953—11 p. m.

2762. Eyes only Secretary and Byroade. There is set forth below translation of document in Persian language handed to me today by Dr. Mosadeq in reply to package proposals which I gave him on January 15 (Embtel 2761, January 17, repeated to London 901):

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[1] Transmitted in two sections; also sent to London for the Ambassador only.

"*Table of Contents.*

Concerning the drafts of three agreements attached to the covering memorandum the Iran Government's position is expressed in four parts:

First
With reference to the agreement between the UK and the Iran Government relating to the method of settlement of the claims of the oil company and the Iran Government.
Second
Concerning the exchange of letters attached thereto.
Third
Concerning the agreement for the sale to an international company.
Fourth.
Concerning the agreement for the sale to an international company.

Part I.

Agreement relating to the settlement of claims for compensation to the oil company and of claims of the Iran Government.

Here follows the Iran Government's position with regard to the draft of arbitration agreement:

(1) With reference to the three proposals concerning arbitration of the question of compensation and counterclaims by all the judges of the International Court of Justice, including the Iran judge, *ad hoc* or by a number of them; or in the event neither of these two ways should be practicable, through arbitration by five eminent jurists to be designated by the Vice-President of the International Court of Justice, the Iran Government has always held the position that in accordance with the principles of international law, Iran courts are the proper courts to examine such cases. However, inasmuch as this is not acceptable to the British Government and the oil company, and inasmuch as the Iran Government desires to terminate the oil dispute, it is prepared to have the company's claims for compensation and the Iran Government's claims settled by a judgment of the International Court of Justice. In case a judgment by the said court should be impeded by the fact that the International Court examines only cases between states, the Iran Government, to remove this impediment, agrees that the said claims be considered by the International Court with the Iran Government and the UK as parties to the litigation, in order that the said court may proceed with examination and judgment in accordance with its own statute and rules of Court. The question of arbitration is therefore excluded.

(2) Part I, paragraph 2 of the said agreement relating to the functions of the Court is modified as follows:

> The Iran Government agrees that compensation and method of payment thereof by installments on account of losses caused the oil company as a result of the laws national Iran oil approved March and May 1951 should be determined in accordance with one of the laws, to be selected by the oil company, national industries in the UK, enacted and enforced prior to the laws national the Anglo-Iran oil in July.

(3) With this arrangement there would therefore be no further need of the provision of Part II relating to the rules of procedure and other matters with regard to judicial wages, etc.

(4) Part III concerning the draft of agreement for the method of payment of debts and compensation to the company and the Iran Government is modified as follows:

> (a) If in accordance with the verdict of the International Court of Justice, the Iran Government should be indebted to the company, the method of the payment of installments should be as follows:
>
> Out of the funds that have accumulated by that date as a result of the deposit of 25 percent of the net proceeds of sales of oil in conformity with the law nationalizing the Iran oil industry.
>
> By delivery of refined and crude oil under a contract mutually agreed to.
>
> If the proceeds should be inadequate for payment of the Iran Government's debts, so long as the said debts have not been paid, interest shall be payable at a rate to be determined by the International Court of Justice.
>
> (b) In the event that by verdict of the International Court of Justice the company should be found indebted to the Iranian Government and the company should be unable to pay its debts in conformity with the said verdict, it shall pay interest to the Iranian Government as provided in paragraph (a).

(5) Part IV of the draft agreement is agreeable.

Part II.

Exchange of letters.

With regard to the drafts of letters to be exchanged between the UK and the Iranian Government following the signature of agreement relating to the settlement of claims, the Iranian Government believes that there is no need for exchanging said letters.

Part III.

Draft of agreement relating to oil transaction is modified as follows:

Heads of agreement between the Iranian Government and the Government of USA or an American commercial company for sale of oil.

(1) After the agreement is signed between the UK and the Iranian Government concerning the claims for compensation to the oil

company and the Iranian Government's claims to be referred to the International Court of Justice, the US Government or an American commercial company shall immediately advance the Iranian Government the sum of $50 million against the value of Iranian oil products and crude oil which will form the subject of an agreement to be concluded in accordance with the following principles:

(2) The Government of the US of America or an American commercial company, hereinafter to be called purchaser, shall enter into a contract with the Iranian Government or with the National Iranian Oil Company, hereinafter to be called seller, for the purchase of a quantity of Iranian oil products and crude oil equivalent to $65 million.

(3) Of the purchase price of the oil products said crude oil delivered to the purchaser under the said contract, after deduction of 20 percent which for the time being is computed as expenses of production, 25 percent shall be deposited in escrow in the Federal Reserve Bank of New York to be disbursed in accordance with verdict issued by the International Court of Justice. The balance of the purchase price shall be paid by the purchaser to the seller after the contract is signed.

(4) The purchaser and seller shall agree on a schedule of shipments with due regard to the availability and quality of oil products and crude oil which should be shipped according to the schedule, and on the suitability of port, loading and other essential facilities.

(5) The price of refined oil products to be delivered to the purchaser against the above sum shall be the medium (or average) US Gulf price minus 35 percent reduction.

In case it should not be possible to deliver refined products in sufficient quantity, the purchaser shall have the option to take delivery of crude oil for the remainder with the same discount from the present Persian Gulf posted price.

(6) Delivery of oil under the sale contract shall continue until the account of $65 million is liquidated.

(7) This agreement is binding on both parties and both parties agree to work out the details for the implementation of the principles mentioned in this agreement.

Part IV.

Agreement for sale to an international company.

It is agreed that the National Iranian Oil Company shall enter into negotiations with an international company registered outside Iran and the United Kingdom for the conclusion of a commercial agreement relating to the sale of oil products and crude oil in substantial quantities and over a period of years mutually agreed upon. The Anglo-Iranian Oil Company, which exists outside Iran, may also be included in the said international company."

HENDERSON

No. 287

888.2553/1-1753: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET NIACT TEHRAN, January 17, 1953—11 p. m.

2763. Eyes only Secretary and Byroade.

1. I am setting forth below a number of comments re my conversation this afternoon with Mosadeq.

2. He has of late shown tendencies to change both his mind and tactics. He has assured me on numerous occasions and as late as January 15 he would never agree to admission UK Government as party to dispute. He now does agree. He has insisted Iran must have $100 million advance payment in order to carry on. Now he says he would prefer to have only 50 million rather than to pay 4 and ½ percent interest on 100 million. He has been talking for many months re international arbitration; now he says he prefers "adjudication" to "arbitration", difference with regard to which I shall not try to discuss.

3. At first glance it would seem that much of work done in London and Washington during January in preparing package proposals was wasted. However, in my opinion that work has turned out to be most useful. It has caused Mosadeq to realize that he was gaining nothing by refusing to accept UK as party to dispute. Furthermore he has been placed in such position that he was almost forced either to reduce some of his ideas to writing or to follow course which would cause world opinion to believe that he was not sincere in his protests that he desired settlement.

4. I was disappointed although not surprised at his rejection of package proposals. Developments of this even it seems to me are in general encouraging.

5. In light this comment it might be possible for Washington and London, if they do not become too impatient, to make redraft of settlement of compensation agreement. I have given this new name to that agrmt since he no longer considers dispute is going to arbitration. Most acute problem in this agreement it seems to me, is still terms of reference. British will not like his formula. I have tried in vain on three occasions to persuade him to make it more liberal but have thus far not succeeded. Perhaps final decision re terms of reference can be deferred until later stage.

6. Mosadeq's two main objections to DMPA agreement seem trivial. Nevertheless he was earnest and eloquent in presenting them.

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[1] Also sent to London eyes only for the Ambassador.

DMPA might be contract with Iran through some private American company although such procedure would be cumbersome. Mosadeq's concern about interest seems to me somewhat more understandable.

During recent months he has been repeatedly accused of having "sold out" to US. He is clearly worried lest an agreement involving prices lower than he has been willing publicly to accept elsewhere, as well as payment of interest to US Governmental agency for loan although US has repeatedly been giving aid in form of large grants to neighboring countries, might give fresh ammunition to his political enemies. It is furthermore quite possible that Mosadeq would like to impress both supporters and opponents with an agreement which could be interpreted as indication that US is friendly to, and would like to help, his government. A businesslike agreement of the character proposed would not create impression of US friendliness which he desires. I hope Department and DMPA in spite of rather absurd aspects of our problem here will try to devise some ingenious plan for solving it. Mosadeq's suggestions re DMPA purchase rather confusing. I believe however that his idea is that: (a) Immediately after compensation settlement agreement has been signed, US Government or some private company acting for DMPA would sign heads of agreement with Government of Iran or NIOC. (b) Simultaneously $50 million would be turned over to NIOC. (c) Iran would sell immediately $65 million worth of crude oil and oil products and deliver to purchaser in accordance with schedule of deliveries to be agreed to. (d) Upon signing of schedule of deliveries $13 million would be placed in escrow, remaining $2 million being turned over to NIOC.[2]

7. I leave Washington to comment on Mosadeq's suggestion re change in price of refined oil.

8. I probably may have more comments to make after giving more thought to Mosadeq's statements and more study to his drafts.

HENDERSON

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[2] On Jan. 18 the Department requested that Henderson clarify the meaning of his statement that of the $65 million, the sum of $2 million, after setting aside $13 million in escrow, should revert to the NIOC. The Department assumed that this difference was intended to revert to the United States in lieu of interest to which, in that case, no reference would need to be made in the heads of agreement. (Telegram 1782; 888.2553/1-1753)

Henderson replied on Jan. 18 that he hoped that interest might be waived in connection with the DMPA agreement, and if such an arrangement could be made, the United States ought to consider returning to the original figure of $100 million which was the sum Iran really needed. (Telegram 2775; 888.2553/1-1853)

No. 288

888.2553/1-1853: Telegram

The Secretary of State to the Embassy in the United Kingdom[1]

TOP SECRET NIACT WASHINGTON, January 18, 1953—4:39 p. m.

4774. Eyes only Ambassador. As explained to Holmes in telephone conversation today, our general feeling on arbitration and DMPA agreements is as follows:

On Arbitration Agreement (which should be renamed Compensation Agreement), we consider it great step forward that Mosadeq has agreed to let dispute be one between states. This greatly simplifies nature of Agreement and complexity of text required. Believe only points of substance remaining are terms of reference and manner in which question of gross versus net proceeds is handled.

On terms of reference, it is still our hope that British can agree to deletion of word "enterprise" and restudy of point here today still leaves us unconvinced that their position would be prejudiced by this omission. If they still cannot agree our preferred position, we would suggest at least some changes in first part of sentence to make it read as follows: "to determine the sum required to provide fair compensation to the AIOC for the loss caused the oil company by the nationalization of its enterprise in Iran as the result, etc." If they feel strongly, we would agree to try again use of word "principles" instead of "basis". Mosadeq's point that UK law to be chosen should be previous to Nationalization Laws in Iran seems reasonable, however, and should be acceptable.

Question of net versus gross proceeds will be covered later in connection with our comments on DMPA agreement and same form as suggested therein should be used in Compensation Agreement.

Mosadeq's redraft of DMPA agreement presents us with more fundamental problems. We feel we can meet what we first thought were his primary objections, i.e., question of interest rates and DMPA nomenclature. Close analysis his redraft, however, indicates such a general loosening of provisions as to contain very little even moral obligation on part of Iran in connection with future agreement on long-term sales contract. While we do not know Mosadeq's intentions, his redraft can certainly be used to confirm British suspicion that his primary concern is one of obtaining immediate funds from US without regard to following through on long-term arrangements for sale of Iranian oil. Among points which could be construed in this direction are fact that his commitment to negotiate a commercial contract has been taken out of our DMPA contract and, as well, contains no commitment on timing of negotiations. Question of subsequent installments and leverage contained therein has been discarded for a one-shot advance from US. Fact that he would be willing sacrifice considerable amount of money in order change nature of agreement cannot help but be viewed with suspicion. Non-agreement with our provision that International Company act as agent for US can also be interpreted in same light. There are other points on question of price and escrow arrangements which we find difficult but which have less bearing on the important consideration of underlying motives behind Mosadeq's redraft.

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[1] Also sent to Tehran eyes only for the Ambassador. Drafted and signed by Byroade.

In considering all of above we have come to conclusion that best tactic is to continue to use our draft as basis for further discussion. We will make such changes as we can to meet Mosadeq's points that do not have real bearing on question of future intentions re commercial negotiations. We would retain in this context our original offer to advance $100 million against future deliveries of oil with explanation that US made this offer on basis of what it considered to be real needs of Iran. If Mosadeq wishes to cut amount in half we would of course be happy to agree but we would not agree for this consideration to drop other points of the agreement which we consider not only important but honest and fair, and which were in large part based upon his previous statements to Henderson.

On question of exchange of letters we hope British will accept our view that these are non-essential in the context of the other agreements. If they persist in their present view at least some method should be found to separate this exchange from initial package which would become public.

Would hope that our views as above on DMPA deal will be reassuring to British and result in quick concurrence suggested changes in draft already approved by them. If compensation agreement can be pushed along we should be in position another early meeting with Mosadeq, as much of textual material would already have been translated in Tehran.

There will follow by separate messages: (1) our suggested redraft of compensation agreement and (2) redraft to replace DMPA headings with comments on key points therein.[2]

ACHESON

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[2] Reference is to telegrams 4775 and 4776 to London, neither printed. (888.2553/1-1853)

No. 289

888.2553/1-1853: Telegram

The Ambassador in the United Kingdom (Gifford) to the Department of State[1]

TOP SECRET NIACT LONDON, January 18, 1953—10 p. m.

3935. Subject Iran Oil. As indicated in separate message,[2] we had two meetings at FonOff today. At second meeting strong current of British thinking was apparent in their reactions to Mosadeq redrafts of documents. They felt there was sinister thread running through the numerous changes made by Mosadeq in his redrafts. They particularly feared that he intended simply to secure $50 million advance while making as few commitments as possible and at the same time include provisions in documents which contained concealed booby traps for UK and also for US. Because of this strong impression which British received in further study of Mosadeq redrafts, they hoped it might be possible to secure some clarification on the significance of Mosadeq's changes in these redrafts. British felt that while it would be possible to work on basis of new language in Mosadeq's redrafts, British would be most reluctant to enter upon this course if they felt that Mosadeq's design was not really to reach agreement on basis of ideas discussed earlier by Henderson with Mosadeq. Following are points on which any clarification that could be provided by Henderson would be most helpful. British urged, as matter of tactics, that Henderson should not at this stage go back to Mosadeq.

1. British are concerned know why wording "loss of enterprise" is not acceptable to Mosadeq. They want to know what meaning is ascribed to words "in accordance with" in Mosadeq's redraft of Article 2 in agreement for settlement of claims. British are particularly concerned by Mosadeq statement that inflexibility is what he wants in terms of reference. Basic point here is whether terms of reference give UK clear right to establish value of concession and expected future profits as elements of loss. British do not understand what objection there is to "the principles applied for the purpose of determining the compensation awarded under any UK law".

2. British wonder why "method of payment" is mentioned in Article 2 of Mosadeq's redraft. They are not clear as to relationship between Article 2 (1) and Article 8.

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[1] Sent to Tehran eyes only for the Ambassador as telegram 161 and repeated to the Department.

[2] See telegram 3936, Jan. 18, *infra*.

3. Does Art 2 (2) remain in agreement under Mosadeq's new draft? What articles are deleted without substitution in Mosadeq redraft?

4. Why has the reference to "sterling" been omitted from redraft of Article 4 and Article 8 (1) and 8 (2)?

5. As mentioned earlier British do not understand relationship of Article 2 (1) to Article 8. They note that, under redrafted Article 8, escrow deposits cease on making of award by ICJ. They query whether, if escrow deposits are insufficient to satisfy award, remainder of award can be satisfied only through deliveries in kind agreed to by UK and Iran; or whether, if escrow deposits are insufficient to satisfy award, ICJ is given power to determine method of paying balance of award, with UK and Iran free, if they choose, to agree that balance of award should be satisfied through oil deliveries.

6. Even if Mosadeq considers exchange of letters unnecessary, why does he object to an exchange of assurances contained in the draft letters?

7. British note that DMPA agreement no longer contains undertaking by Iran to negotiate with international company as soon as company formed and ready to negotiate. This naturally matter of great concern to them and they inquire if this actually intended in Mosadeq's redraft. Brit also inquire as to who are the parties to agreement referred to in part 4 of Mosadeq's redraft-agreement on negotiations with international cooperation.

If it were possible to obtain satisfactory clarifications on above points, general British misgiving about Mosadeq's intentions might be alleviated, with result that they could more easily see their way to working now on basis of Mosadeq's redrafts.

GIFFORD

No. 290

888.2553/1-1853: Telegram

The Ambassador in the United Kingdom (Gifford) to the Department of State[1]

TOP SECRET NIACT LONDON, January 18, 1953—10 p. m.

3936. Two meetings held at Foreign Office today devoted principally discussion Tehran's 2762.[2] Preliminary impression two Foreign Office officials at first meeting was that counterproposals not too bad, though some difficulties apparent. At later meeting with Representatives Treasury, Minister Fuel and Power, AIOC and other Foreign Office officials, including Legal Adviser, first impression materially revised and several substantial doubts expressed.

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[1] Transmitted in two sections; repeated to Tehran.

[2] Document 286.

At outset of second meeting at Foreign Office today the British stated that proposals made to Mosadeq were sent with general idea that they represented final positions. They had been approved by Ministers with this thought in mind and were agreed only under pressure of getting a final agreement within few days. Mosadeq's counterproposals went beyond "final position" in several respects.

Terms of reference to ICJ was the most troublesome. Reference to "losses" was too vague. British preferences for "property, rights and interests" and acceptance of "enterprise" were recalled. What British were seeking to protect was claim for loss of concession and future profits therefrom. Word "losses" was bad enough standing alone, but tying the reference to the British Nationalization Act (that is the Coal Act) made it even worse for in the case of the coal industry compensation was for assets taken over by the state. British pointed out that assets under coal law were physical properties, including collieries, unworked coal, et cetera, while in Iran there was not a true parallel in the case of the oil lands, since company did not own these lands, but simply had concession agreement permitting exploitation. While Coal Act provided for transfer of assets to public ownership, Iran nationalization law did not purport to transfer concession.

Position was at best ambiguous, requiring extensive argument even before impartial court which might be persuaded to accept a narrow Iranian view on the issue. This particularly so if history of negotiations produced to show change from wording preferred by British to that suggested by Mosadeq who British convinced clearly understands fears they entertain. British legal adviser also expressed fear that if generalized term "losses" used in terms, then Iran might try establish to ICJ that in fact AIOC had not sustained over-all loss, but had recouped losses through operations elsewhere.

British were not persuaded by argument that the ICJ being a reasonable Court would surely count as loss the loss of concession from which all other losses derived. Concession agreement should in effect be considered analagous to ownership of mines in case of Coal Act. Nor were British impressed by argument that "losses" was wider term than "loss of enterprise" and might include ancillary expenses of company stemming indirectly from nationalization.

British minimized significance Mosadeq's agreement to put issue to ICJ (which they accept) saying point cost him nothing, particularly if he drew limiting terms of reference as he had. His ulterior motive in such definition might be deduced from his statement he was seeking inflexible formula.

Some discussion ensued on possibility of minute of agreement interpreting satisfactorily such language as British now feel unsatisfactory, particularly to cover point of loss of future profits in light Mosadeq's statement he understood British claim would be made on this point. Generally held by British, such documents unlikely be worth much. They noted, however, that our discussion somewhat in the dark, since we have new formula from Mosadeq, but on many points we do not know his objections to ours.

Uncertainty of Mosadeq's intention with regard to method of payment was discussed. British particularly concerned whether he would retain reference to payment in sterling and anxious ascertain relationship between Mosadeq's redrafted articles 2 and 8. British noted also that escrow in jeopardy, since rewording would provide for escrow payments only until ICJ verdict reached. Thereafter compensation would apparently be in kind dependent on a contract which might not be signed. In its negotiation, however, Mosadeq would hold all the cards.

Mosadeq's abandonment of $50 million request was seen by the British as his price for retaining freedom of action which would be limited if he had installment payments forthcoming against some standard of performance.

Regarding DMPA agreement, we pointed out that there would be no problem regarding name of agency or charging interest.

Dropping of the exchange of letters on non-interference with tugs, tankers and other craft was said to be particularly disturbing to AIOC and this exchange considered by British officials to be required. Point of worry was principally tugs, dredges and ancillary craft which AIOC succeeded in removing from Iranian waters but which would have to return to make loading ports operative. Sister craft left in Iranian waters were seized by Iran. Tankers are apparently less worrisome since they could be seized again after leaving Iranian ports.

We pointed out this problem in last resort comes back question of good faith. If this were present, no letter required; if lacking, letter would be worth nothing.

Another point of British concern was deletion of reference in DMPA agreement to prompt start of negotiations of commercial contract. This reference had not been as strong anyway as British wanted.

Final comment was on the point of the 25 percent set aside from net proceeds. British say this would destroy 50-50 principle. Their figure was 46-54, but arithmetic was not checked. British noted point could be met by increase in discount. They aware Iranian law but say it permissive. Further they believe international agreement leading to payment into escrow of 25 percent of total proceeds would supersede any provisions of Nationalization Law. We said this might be legally true but would increase political difficulties with Majlis.

Throughout both meetings we tried as persuasively as we could to reassure British on points that were bothering them. As our preceding telegram makes clear, however, they were primarily disturbed by Mosadeq's intentions in apparently dismissing somewhat summarily much of wording which British regard important to protection their interests.

For Department's guidance in connection any conversation with British Embassy, we have informed British of following telegrams: Tehran's 2754, 2755, 2761, 2762, 2763, 2764, and 2765 to Department, also Department's 4770.[3]

GIFFORD

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[3] For telegrams 2754, 2761, 2762, and 2763, see Documents 284-287. Telegram 2755 is not printed, but see footnote 2, Document 284. The last three reference telegrams are not printed. (888.2553/1-1753, 888.2553/1-1753, and 888.2553/1-1853, respectively)

No. 291

888.2553/1-1953: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET NIACT TEHRAN, January 19, 1953—8 p. m.

2802. Eyes only Secretary and Byroade:

1. When I sent my various telegrams on evening January 17 commenting tentatively on documents received from Mosadeq, I had not had opportunity carefully to analyze his proposals regarding arbitration and to compare them with those handed him on January 15. Further study yesterday brought realization of changes mentioned in London telegram to Tehran 161, January 18 repeated Department 3935.

2. I called on Mosadeq shortly after noon today in order obtain clarification and explanation of these changes as well as answers to questions raised by British. I asked why in Article 2 of I of his redraft he had stipulated that method of payment of compensation should be determined in accordance with some British law. It had been my understanding gained during previous conversations with him that amount of compensation was to be determined on basis of a British law whereas method of payment was already prescribed

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[1] Transmitted in four sections; also sent to London eyes only for the Ambassador.

in Iranian national law; that was, payment of 25 percent of revenues from sale of Iranian oil. After considerable confusing conversation it finally became clear that what Mosadeq now had in mind was as follows:

(a) Method of payment was to be in accordance with same British law on basis of which compensation was to be determined.

(b) 25 percent of net proceeds would be set aside in escrow until verdict was reached.

(c) Verdict would include determination "according to British law" of amount and time due of installments.

(d) Escrow fund would be kept alive by continual deposits in it of 25 percent of net proceeds so long as sums were needed from it to meet next installment due.

(e) If at any time after installment due had been paid there would be balance left in escrow, such balance would be turned over to Government of Iran. If not sufficient amount in escrow to pay installments falling due, Iran must begin to pay interest on unpaid amounts and continue to pay interest until all installments were paid up to date.

3. I told Prime Minister this was quite new idea to me. I read to him various excerpts quoting him from my telegrams of December 26[2] and January 2.[3] I said that based on what I had understood to be his willingness that amount compensation was be determined on basis of a British law and payment of compensation be made as provided by Iran law, officials of US Government had had long and laborious negotiations with British Government; enormous amount of effort had been made by many people in direction settlement. Ideas which he was now presenting, it seemed to me, might well undermine very basis of agreement on which so much labor had been spent. I read to him portion of what he wrote in his little book on January 2 "after the decision of the arbitration board is handed down, if Iran is still found to be owing the former company, 25 percent of the proceeds of sales abroad will be payable to the former company until the full amount of compensation has been paid". Prime Minister was unyielding. He said he was sorry if there had been misunderstanding. What he had meant was that 25 percent of the sales abroad would be paid to fund from which sums would be taken to pay installments which may be due in accordance with decision of court. I read to him excerpt from my telegram reporting my conversation of December 25 in which I quoted him as saying "he was still preparing refer to International Court for arbitration matter of determination of amount of compensation

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[2] Reference is to telegram 2425 from Tehran, Dec. 26, 1952. For a summary of that telegram, see Documents 256 and 257.

[3] Document 263.

owed by Iran to AIOC, due regard being given to Iran counterclaims.

The only terms of reference would be that International Court in determining amount of compensation due, should base itself on any law carried out by any country for nationalization its industries which might be agreed to by former AIOC". I told him that in order to make sure that I had understood what he said I had repeated these two sentences to him. He said he did not recall precisely what he had said on December 25, but he was certain he had never intended to indicate that only amount of compensation should be determined by court on basis of British law. His formal statements had always been to effect that Iran would be willing to settle question of compensation with former company by arbitration on basis of British law. He had always intended that method of payment as well as amount of compensation due would be determined by court in accordance with some British law.

4. I told Prime Minister that because of his insistence that terms of reference provide that compensation be determined "in accordance with" a British law instead of "in accordance with the principles" of a British law, it was already proving to be extremely difficult to obtain any agreement. If he would now also insist that method of payment should also be determined "in accordance with" a British law, I was afraid that agreement would be impossible. I spent more than hour trying to convince him by means of illustrations how difficult it would be for Court to adjudicate question of compensation due as result oil nationalization by strict application of British law nationalizing, say, coal or steel industry. I read to him excerpts from coal nationalization law and pointed out how impossible it would be strictly to apply them to AIOC compensation problem. He reluctantly agreed that it would be impossible to apply letter of law. He said he nevertheless objected employment of word "principle" because use of that word might cause Court to ignore certain details in British law which would be advantageous to Iran. I had difficulty making him understand that words "in principle" did not have same significance as words "main points". He has studied law in French language in Switzerland and France and should have been easily to understand this distinction.

5. I asked him why he objected to inclusion of words "loss of enterprise". He said such words not in any British law and his proposal was in accordance with British law. He inquired if I knew what law British had in mind. I replied I thought they were considering coal nationalization law. He said he would read that law carefully and then talk with me again about problem of strict application. I asked him if I was to understand that he would prefer that our negotiations fail rather than to agree that compensation

should be determined according to principles of British law and method of payment should be governed by Iran national law. He evaded direct answer to this question, but said he did not see how he could change Iran's established policy in this respect. He would examine coal nationalization law and talk to me again.

6. My comment on above: I do not wish to go so far as to charge Prime Minister with lack of frankness in his dealings with me re determination of method of paying compensation. It may be that his mind, which is sometimes rather vague, failed to grasp fully significance of things which I have said to him and which he has said to me in past. Nevertheless, during our long conversation on January 15, he tentatively wrote down formula for terms of reference, translation of which I incorporated in Embtel 2754 of January 17 to Department to London 898, which contained no reference to method of payment. It is possible that his advisers have been reminding him of something he has overlooked.

7. I referred to his failure in counterdraft to provide for continuance of deposits in escrow fund after verdict had been handed down. He said that was oversight and suggested that in his draft after words "of the net proceeds of sales of oil" the words "or will accumulate" be added. Since this phrasing seemed to be merely subsidiary aspect of main problem regarding method of payment treated above I did not discuss it with him in detail.

8. I regret that I failed to ask him why he omitted "sterling" from redraft of Article 4 and Article 8 paragraphs (1) and (2). I doubt however that there was any real significance in that omission. I shall take this matter up with him during our next conversation.

9. I also failed ask him if he intended omit Article 2 paragraph 2 relating to Iran's counterclaims. I believe however this omission was intentional; that he thought that reference in early part of document to fact that Iran prepared to have Iranian Government's claim settled by court took care of this. I shall inquire regarding this point during our next conversation.

10. I asked Mosadeq why, even though he might consider exchange of letters unnecessary, he should object to exchange of assurances contained in them. He said he would go into that matter when agreements were signed. He did not believe that exchange of this kind should be connected with other agreements. Iran had no intention of seizing any British or company boats or other British or company property which might subsequent to agreement be introduced into Iran or Iranian waters in accordance with Iranian law. If compensation agreement was concluded British would have no cause to worry on this score. He said commitment contained in

his Document No. 4 could be incorporated in an exchange of letters between himself and me.

11. I told Prime Minister that I felt it incumbent upon myself to inform US Government—and my views would undoubtedly be conveyed to British Government—whether in my opinion he was really interested in concluding long term sales contract with some international company in which AIOC was participant. He sat up in bed, placed his hand on his forehead and solemnly swore that he was extremely anxious to negotiate and conclude long term sales contract as soon as possible with such international company. He said Iran must sell its oil in order to live and he would like to sell as much of it as possible to international company. "I would be quite willing at any time to sit down at banquet table with directors of such company." I intend express my honest personal opinion regarding strength of his desires in this respect after another conversation with him.

12. I asked Mosadeq whether he would still find it objectionable to deal with DMPA in case at beginning of contract its name should be given in full and its functions explained and if thereafter it be referred to as DMPA. Mosadeq said, no he could not enter into arrangements with American agency which by its name might indicate that Iran was selling United States war materials.

13. Before leaving Mosadeq I again referred to problems of terms of reference. I told him that his decision in this regard might well determine whether or not any room for agreement could be found. His present formula in my opinion was so unworkable that it could not be accepted by British and would not in general be considered reasonable in case it should be known to world that differences with respect to it resulted in breakdown of negotiations. I supported by number illustrations my reasons for believing that Iran itself might be in much more favorable position if it should agree that method of payment of claims should be met by devoting 25 percent of oil revenues to this purpose rather than in accordance with a British law which would probably not be applicable if strictly applied. Mosadeq said again he would discuss this matter in subsequent conversation but he did not indicate he had any intention of altering his attitude. Mosadeq said he was afraid difference regarding terms of reference was another British excuse for not coming to agreement. I told him that I knew for fact that he was entirely wrong in this premise. Not only British, but I personally, members of Embassy who had followed our conversations, and I was sure American officials in Washington and London acquainted with matter were unanimous in believing that it would be impossible for

court to come to fair verdict if bound by terms of reference on which he was now insisting.[4]

HENDERSON

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[4] Later that day Ambassador Henderson characterized this session with Mosadeq as the most discouraging discussion which he had had with the Iranian, and admitted that he was beginning to lose hope that Mosadeq could ever be prevailed upon to come to what the United States and United Kingdom would regard as a reasonable and fair settlement. (Telegram 2803; 888.2553/1–1953)

No. 292

888.2553/1–2653: Telegram

The Secretary of State to the Embassy in the United Kingdom[1]

TOP SECRET
PRIORITY

WASHINGTON, January 26, 1953—8:06 p. m.

4941. Eyes only Holmes. Representatives of British Embassy yesterday handed Department documents covering their comments on the counter-proposals submitted by Mosadeq and our suggested redrafts of the arbitration and DMPA agreements. These documents include British suggested redraft of arbitration agreement and a statement of their general position in Iranian matter for consideration by new administration. It is assumed that Foreign Office will have furnished copies of these papers to Embassy London. Summary of documents have been transmitted to Tehran separately.

We consider it unfortunate at this stage that British have chosen to transfer US/UK negotiations to Washington. As this will inevitably result in delay in reaching final US/UK agreement, request Embassy London continue direct contact with Foreign Office in effort move things along.

Our only comment at this time on general position of British as outlined in Annex C is our regret that they chose to refer to latest proposals presented to Mosadeq as a "joint" offer along the same lines as the joint approach of 30 August. We think British should understand that we look upon our role in present negotiations in different light. The US, as the result of conversations between Mosadeq and our Ambassador, took the initiative to prepare the essentials of an agreement which we hoped would be acceptable to both sides. We appreciate concessions made by HMG in an effort to reach agreement through us with Mosadeq. We do not consider, however, that the documents prepared in London have a sanctity in themselves. We hope British will continue consider each point of disagreement arising during negotiations to determine whether there is a point of real substance involved or whether further changes can be made to meet Mosadeq's view and not relinquish points of great importance to them.

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[1] Repeated to Tehran eyes only for Ambassador Henderson. Drafted and signed by Byroade.

Our comments upon British redraft of compensation agreement are as follows:

(1) We reluctant to see introduction of new points in this agreement at this stage unless they are absolutely necessary. In this connection, we hope British could agree to drop phrase at end of second paragraph of Preamble which reads as follows: "The preliminary issue of jurisdiction in which was before the International Court of Justice in June, 1952." We believe this unnecessarily raises a touchy point. If any mention of the prior case before ICJ is made, it must certainly be done in such way so as to assure Mosadeq that the present case before the Court will not serve to undo Court's previous decision. For same reasons, we would hope that paragraph 2 of Part 1 could be omitted entirely. While the substance of this paragraph may be entirely logical, we believe it is certain to cause complications and we suggest such matters be left to Court.

(2) Terms of Reference—This is undoubtedly most critical point of disagreement between United Kingdom position and that of Mosadeq. It is an extremely difficult one for us as after exhaustive study of problem and analysis of United Kingdom coal law, our lawyers are honestly unable to share British concern at wording of this paragraph. We would hope British could agree with our view that as British coal law provides for compensation based upon capitalization of future profits it is inconceivable to us that any impartial body of jurists could fail to take into account question of earning power of AIOC property. Even if question of the validity of the concession is disputed before Court, it seems to us that legal case is clearly on side of British.

In presenting documents yesterday, British representative explained that one of their concerns about any change in the wording of Terms of Reference in this regard is that such a change might be used by Iranians before the Court to indicate that British had conceded the point on future profits by accepting alternate wording before agreement had been reached. It does not seem to us that legislative history of this nature would be entertained by Court.

If British cannot agree to our preferred wording on this subject as contained in recent US redraft, we would hope at least they could shift to wording as suggested in Paragraph 3, Deptel 4774 to London, rptd Tehran 1783. They should know, however, that we are not hopeful that this change would be likely to produce agreement.

(3) British may be assured that only reason our suggested redraft reversed order of paragraphs in Part 2 on question of method of payment was for simplicity of presentation. If they prefer order in their present draft we would not object. The point of principle in these paragraphs seems to be question of defining amount which will be placed in escrow. We continue to believe that phrase "25

percent of the net proceeds" defined in some reasonable manner, would be the most acceptable to all concerned. Unless there is a change in Iranian law, Mosadeq must deduct his costs before allocating a percentage of his receipts from oil for payment of compensation. Iranian costs will inevitably be very high and if not defined could be subject of endless altercation. It seems to us much wiser to accept a flat percentage for costs which is not far out of line with reality. For this reason, and because use of the wording "receipts" in light of Iranian law would, in our opinion, carry with it risk that Court might interpret this to mean "net receipts", we believe such a formula should be preferable from British point of view.

We have always thought that British prefer, as we do, that any future commercial arrangement would be set up so that international company would buy crude and pay a "through-put" charge for products. If this were to eventuate, no problem would exist since compensation payments would be calculated exclusively on Iranian crude sales and costs. In the purchase of products by international company, costs would still be calculated on the same basis for crude plus, say, 50¢ a barrel for refining. If international company prefers to buy products at 35 percent discount, which is almost exactly the same price, namely $1.64 (assuming barrel of products mix to be valued at $2.52), as purchase of crude and plus through-put charge of 50¢, then amount placed in escrow for compensation should equitably be derived by deducting from Iranian proceeds refining expense of say 50¢, and applying to balance same formula as would be used on purchases of crude. In event of sales of products by Iranians to others, we presume that refining charges per barrel are allocable on some standard cost basis and provision can be made in the unlikely event that Iranians receive prices in excess of refining costs plus $1.14 for crude so that 25 percent of such excess is added to the compensation account.

(4) We note that British have re-inserted in several places the provision that Vice President of Court would act as an umpire. While this undoubtedly is logical method of proceeding, it does not seem to us to be a matter of real substance. If Mosadeq, due to the popularity of Court in Iran, insists that whole Court should act on such matters, we hope British would agree that Henderson could be given leeway to make this change.

(5) Henderson reports that matter of Iran being obliged to pay interest is an extremely difficult point for Mosadeq, as it relates to matters of religion and the suspicion of future foreign domination. We would hope therefore that British could agree to change substance of Paragraph 6, Part 2, to something along following lines: "It is understood by both parties that if as a result of the decision of the Tribunal, one party should be found to be indebted to the other, the amount of indebtedness shall not bear interest and the Court in fixing the amount of compensation should take this understanding into consideration."

(6) It will be noted from Henderson's cables that manner of referring to the AIOC may be a difficulty in Iran. It would be helpful in our opinion if British could agree that first reference to AIOC would be along the following lines: "Anglo-Iranian Oil Company, Ltd., a British company which formerly operated in Iran, herein-

after to be referred to as the Company." The same change should be made in US agreement for purchase of oil.

End of comments on compensation agreement.

Analysis of the British paper would seem to indicate that their concern over Mosadeq's redraft of our DMPA agreement is quite similar to our own. As we pointed out in Deptel 4774 to London rptd Tehran 1783,[2] we are not inclined to alter matters of principle in that agreement which have a bearing upon Iranian intentions to follow through upon a long term commercial arrangement. We therefore propose that next approach to Mosadeq be on basis of US draft incorporated in Deptel 4776 to London rptd Tehran 1785,[3] with exception of reference to AIOC as referred to above. While we do not fully share British concern at reducing amount of our advance to $50,000,000, if we retain the essential points of principle in the contract, we will agree that next approach to Mosadeq be limited to text which includes advance of $100,000,000, partially in installments. If Mosadeq should clearly prefer an advance of $50,000,000, which we think most unlikely, we should be in difficult position but would in any event discuss this matter with British prior to any other change in the present text.

With regard to Para B (4) of British paper, we consider it unwise to have Henderson reopen question of relation between terms of a commercial contract and short term purchase of oil envisaged in US contract. We believe the long term sales arrangements should be settled by commercial negotiation, and that any effort prior to these negotiations to tie down matters of price for long term arrangements by reference to the short term US purchase would be a self-defeating exercise.

The UK may be assured with reference to its Para B (5) that the US will coordinate its schedule of deliveries, including types of products desired, with UK. We do not believe this will be a future problem.

End of comments on DMPA agreement.

As there is no mention in British documents of the proposed exchange of letters on the subject of freedom of seizure of British tankers, etc., we hope they have accepted our view that such an exchange in the context of the documents to be agreed to is, in fact, unnecessary.

If the British can agree substantially to our position as set forth above, we would hope for an early resumption of talks between Henderson and Mosadeq. We feel that the next conversations should clarify one way or the other many of the doubts that have been raised in our minds, as well as with British, and that these further conversations are quite necessary before we can decide what our ultimate course should be.

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[2] Document 288.

[3] Not printed. (888.2553/1-1853)

Substance of above points will be presented British Embassy representatives here tomorrow.[4]

In this morning's meeting the Secretary told Makins he had not had opportunity to go fully into details of Iranian negotiations. We have, however, had number of meetings on this subject and after round up with Gen. Smith and others Secretary instructed the Department to proceed on above lines.[5]

DULLES

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[4] According to the memorandum of a conversation held by Nitze, Byroade, and Richards with representatives of the British Embassy on Jan. 27, a memorandum was handed to the British officials which encompassed the substance of telegram 4941 to London. The British reaction was that U.S. views had changed little with the change in administration, and that the United States and United Kingdom were sliding down "a slippery slope" in regard to concessions to Mosadeq. Byroade assured the British that the United States recognized the dangers, and realized that the point had almost been reached beyond which the Anglo-Americans could not go in making substantive concessions to Mosadeq. (888.2553/1-2753)

[5] On Jan. 28 the Embassy reported that it conveyed a memorandum based on telegram 4941, minus the first two paragraphs, to the Foreign Office. In making the presentation, the Embassy officer stressed the desirability of having the United States and United Kingdom reconcile their differences to permit an early resumption of talks between Henderson and Mosadeq. The preliminary British response to the American memorandum was that the United Kingdom considered the proposals put to Mosadeq on Jan. 15, as "joint" in the sense that they were worked out between the two governments, that they constituted a package, and involved simultaneous commitments by both governments with respect to various elements of the package. The Foreign Office representative implied that the United Kingdom did not attach great importance to retaining the phrase at the end of the second paragraph of the preamble of the British redraft of the compensation agreement. He doubted very much that the British Government could agree to changes in the terms of reference because it did not believe that Mosadeq was prepared to have the International Court of Justice take into consideration the loss that the AIOC had suffered as a result of the cancellation of the concession agreement. The British were concerned about the matter of escrow and the Department's suggestion that the payment of interest should be dropped from the compensation agreement. (Telegram 4152; 888.2553/1-2853)

No. 293

888.2553/1-2853: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET **PRIORITY** TEHRAN, January 28, 1953.

2934. Eyes only Secretary and Byroade.

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[1] Also sent to London eyes only for Holmes.

1. This evening Mosadeq asked if I could come see him. I went immediately accompanied by Saleh, my Iranian assistant.

Our conversation lasted approximately two and one-half hours. I told him I had not visited him for several days because I had been awaiting fresh instructions from Washington. In view change of administration entire US position was being reviewed in light of our various conversations.

2. Mosadeq said he had assumed that change of administration might cause recess in our conversations. In our last talk I had told him that I thought it would be difficult for Court to adjudicate question of Iran compensation to former company by strict application of British law nationalizing coal or any other industry. He had subsequently examined coal nationalization law and had concluded I was right. Law was complicated and difficult to understand. It contained many provisions which had no relationship whatsoever to Iran oil problem. He and his advisers now believed it would not be practicable for Court to apply law this kind to present dispute. They therefore wished to amend suggestions which they had made previously. He handed me document in Persian, translation of which contained next paragraph.

3. "(1) The Iran Govt accepts judgment by the ICJ with regard to 'property and establishments' of the oil company in Iran on the basis of any one law relating to nationalization of industries in England which would be acceptable the oil company.

"(2) In case this proposal is not agreeable to the oil company, the company may determine which one of the laws relating to nationalization of industries it would like to have as basis of the judgment by the ICJ, and it may also specify the principles of such law which are agreeable to the company as the basis of judgment, in order that the question may receive consideration.

"(3) Inasmuch as it may take a long time to refer the case to the judgment of the ICJ and obtain a result [and whereas][2] the Iran Govt would like to settle the difference as soon as possible, the Iran Govt desires the oil company to name the amount of compensation to which it considers itself entitled (regardless of Iran's counterclaims). Perhaps the question of compensation can be settled by direct negotiation and without reference to the Court."

4. Saleh translated this document aloud paragraph by paragraph. At end first paragraph I asked Mosadeq if I was to understand he now wished terms of reference expressly to limit compensation to "property and establishments" of oil company in Iran. He replied in affirmative, adding that in any event coal nationalization law not applicable to situation in Iran. In England owners of mines had

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[2] Brackets in the source text.

title to them. In Iran former company did not own any land or subsoil minerals. It owned merely certain physical property above ground and had right to exploit and refine oil. Iran willing to permit company to claim compensation for losses of physical property above ground but not for loss of rights to exploit or refine. If Iran should be willing to agree to pay compensation for loss of such rights that would mean that it would be agreeing to pay compensation for loss of future profits. Iran could not do that.

5. I reminded Prime Minister of sense of our previous conversations. He had explicitly told me that he would be willing to permit Arbitration Board to settle question compensation on basis any British law nationalizing a British industry acceptable to former company; and that in answer to questions put by me he had stated that such basis for settlement would be agreeable to him even though British law selected would provide for payment to former owners of compensation for loss of future profits. It was on basis this statement to me that our present conversations had been inaugurated. He said he did not remember making such statement to me. We had discussed many things. He thought, however, he had always made it clear that Iran would not agree to any arrangement which might involve payment of compensation for loss future profits. In any event he had emphasized throughout our talks that anything he might say was subject to approval of Majlis. He was convinced from talking with his advisers that Majlis would not agree to any formula which might make it possible for British to claim compensation for loss of future profits. I told Prime Minister that if that was his position, I feared all our conversations had been in vain. I was convinced, as I had told him in conversation of December 25, that British could not accept terms of reference which would limit compensation to losses resulting from confiscation of physical property of company in Iran. I was sure that whole business world would consider that company was right in insisting that in determination of compensation, losses of future profits should be given consideration. If his position as now outlined to me should be conveyed to British our conversations would probably be terminated.

6. Mosadeq indicated considerable distress, maintaining he anxious for settlement. He suggested that second paragraph of document be translated before further discussion. This paragraph might serve as alternative if first paragraph unacceptable. Saleh translated second paragraph. I said I did not think it would serve any useful purpose for company to specify principles of any British law as suggested in this paragraph since Mosadeq had already made it clear that he would not accept any formula which would make it possible for company to claim compensation for other than physical

property in Iran. Prime Minister said he did not see why presentation of this document would mean termination of conversations. If British did not like suggestions contained in it they could give counter suggestions. I said British had already presented their formula in proposals which I had handed him on January 15. He had not really replied to British formula. Instead he was proposing new formulas which had no real resemblance to suggestion of British. Mosadeq asked that third paragraph be translated. I told him that this paragraph, if given consideration, would transfer our conversations into area which I not in position to enter. Both British and Iran Govts had indicated their agreement for US to carry on conversations in an endeavor to achieve oil settlement basis international arbitration or adjudication of question of compensation. Paragraph 3 seemed to suggest discussion of lump sum settlement. I had no authority discuss this kind of settlement. I would submit document in question to US Govt but in doing so I would inform it that I had I told him I unable discuss suggestions of kind contained in paragraph 3.

7. Mosadeq reverted to paragraph 2 of document. He said he would be willing to consider principles involving compensation for loss of future profits provided he was sure that amount to be claimed would not be exorbitant. His advisers had told him that Majlis would never agree to oil settlement involving risk, even though remote, that court might find Iran liable to pay compensation for loss of profits amounting to 150 million pounds annually for 32 years. I tried to convince him his fears groundless. Judges of Court were reasonable men not likely hand down decision so ridiculous. He insisted that risk existed. If British would let him know what was maximum amount which it would claim he might agree, if that amount was not too exorbitant, that Court could adjudicate claim with terms of reference including compensation for loss of future profits. If British desired to know size Iran's claims he would be willing give it in return.

8. I told Mosadeq I disappointed that we seemed so rapidly to be approaching deadlock. I had entertained hopes that settlement might be achieved on a basis which would leave Iran master of its own oil industry, would offer Iran opportunity sell oil abroad on commercial basis, would afford guarantee Iran would not be saddled with burden indebtedness greater than it could bear. which would provide Iran funds to meet its financial needs until oil revenues would again begin to accrue. Mosadeq said I had failed in one respect. I had not been able to guarantee that Iran would not be saddled with burden of indebtedness greater than it could bear. I said if Iran would be called upon to pay its indebtedness only from 25 percent of proceeds derived from sale of oil, burden would not be

unbearable. Unfortunately Iran Govt apparently was not willing even to bear this relatively light burden. Mosadeq said it might be willing to bear such burden if it knew number of years involved. Over how many years would Iran be expected to pay? I said that would depend upon judgment of Court. Mosadeq said on a basis of this kind it would not be necessary to go to Court. He would be willing to present to Majlis agreement whereby for certain number of years Iran would pay in settlement compensation 25 percent of gross proceeds from its oil exports. Only question to be settled was number of years. That could be settled in conversation of one hour if British were agreeable. Difficulty with lump sum method would be to satisfy public opinion in Iran and UK. Method of definite number of years but indefinite global amount would be much easier to sell at least to Iran public. Another advantage of this method would be that company would in sense become partner of Iran. Both would want to sell as much Iran oil as possible. I told Mosadeq I unable discuss this kind of settlement with him. I could only discuss settlement based upon international arbitration or adjudication of compensation.

9. Mosadeq said he hoped some way could be found to prevent termination of conversation. It was important not only to Iran but to world that dispute be settled. I repeated in view of position which he had this evening assumed I could, for moment at least, see no way avoiding deadlock.

10. My tentative comment. I do not think that Mosadeq could have failed to realize that decision of himself and advisers that terms of reference must be worded so as to limit compensation to loss of physical property of company in Iran would destroy all possibility of settlement of compensation by international arbitration or adjudication. He hoped, therefore, to be able to shift conversations to another basis, that of reaching agreement on lump sum to be paid as compensation or preferably on definite period of years over which Iran would pay 25 percent of gross proceeds from oil exports as compensation.[3]

HENDERSON

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[3] On Jan. 29 the Embassy in London reported that it had conveyed the contents of telegram 2934 from Tehran to the British Foreign Office, which expressed the view that Mosadeq's latest comments would have a most disturbing effect upon the British Government and would undoubtedly delay British consideration of the points contained in the Embassy memorandum handed to the Foreign Office on Jan. 28, which was based upon telegram 4941 to London, Jan. 26, *supra*. (Telegram 4199; 888.2553/1-2953)

No. 294

888.2553/1-2853: Telegram

The Acting Secretary of State to the Embassy in the United Kingdom[1]

TOP SECRET WASHINGTON, January 30, 1953—7:49 p. m.

5076. Eyes only Ambassador. Preliminary reaction to Tehran tel 2934 to Dept rpt London 970[2] was one of disappointment that Mosadeq at this stage would again attempt to alter the basis upon which we have all worked in an effort to secure agreement. Further study, however, leads us to believe that we should not accept this change in a spirit of defeat but should continue under same compulsions as before to attempt to reach agreement. There is at least a possibility that the changes proposed by Mosadeq might turn out to be blessing in disguise. As we now understand his position he might accept phraseology for terms of reference which would meet British position on question of future profits if he could be assured in some way that any judgment against Iran would not be so excessive as to be beyond the capacity of the economy of that country or stretch indefinitely into future.

This thought has led us to search for some type of assurance that could be placed in the documents to meet Mosadeq's concern. It is obviously unwise to place a ceiling on amount of compensation which Court could award, as this would in effect destroy principle of impartial international arbitration. Any formula, therefore, would have to be along lines of insuring that method of payment be handled in such a way as not to impose undue strain upon Iranian economy and to provide for some terminal date. Latter point could be handled by specifying a fixed number of years beyond which Iran would not be expected to pay compensation. For purposes of illustration, we assume in this message that such figure would be twenty years, although exact number could be subject of further consideration or negotiation. Formula could specify that Iran would set aside 25 percent of gross proceeds for period not exceeding twenty years to be used in meeting arbitration award. It could further be specified that if funds set aside pursuant to the above formula were in any year less than one-twentieth of total arbitration award, company would receive certain amount of free crude.

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[1] Repeated to Tehran eyes only for the Ambassador. Drafted by Byroade and Nitze and signed by Nitze.

[2] *Supra.*

Such formula would have effect of giving Iran degree of protection against having to pay more than its national economy could support. It is assumed that delivery of free crude, if that should be necessary in any given year, would not be a significant drain upon its economy.

If such a formula should prove acceptable to Mosadeq, wording of terms of reference should be such as to meet British position on question of future profits. There are of course number of alternatives as to exact phraseology that could be used. One method would be to leave terms of reference as they were in British draft submitted to Department on January 25. Combination of word "enterprise" and "principles of a specified British law" is one method of specifying future profits. There may be simpler method which could be worked out by British.

It would then be necessary to alter section in compensation agreement concerning method of payment. We have produced here following tentative wording which might be used to give effect to formula set forth above. This would substitute for Part Two, para 4, Deptel to Tehran 1852.[3]

"4. Any balance due in consequence of the decision of the International Court of Justice shall be paid as follows:

(1) If a balance is due to the company, the method of payment in installments shall be as follows:

> (a) Out of funds that have accumulated prior to the date of the decision as the result of the deposit in a bank designated by the company of 25 percent of the gross receipts from all sales of oil and oil products exported from Iran;
>
> (b) Out of funds similarly deposited subsequent to the decision of the Court of 25 percent of the gross receipts from all sales of oil and oil products exported from Iran for such period as may be necessary to liquidate the balance due the company after deducting payments made pursuant to (a) above, but not exceeding twenty years;
>
> (c) If in any year the amounts deposited pursuant to (b) above less than one-twentieth of the balance due the company after the deduction of payments under (a) above, the company shall be entitled to receive and Iran shall deliver free crude oil equal to 25 percent of the amount, if any, by which Iran's exports of oil and oil products in that year fall short of 20 million tons.

(2) If a balance is due to the Iranian Government, it shall be discharged by payments in cash in sterling to the credit of the Iranian Government with a bank designated by the latter of such amounts over such periods of years as shall be agreed between the Iranian Government and the Company; or, in default of such agreement, in

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[3] Not printed. (888.2553/1-2653)

such amounts over such periods of years, as shall be determined by an umpire appointed by the Vice President of the Court."

Effect of para 1 (c) above is as follows. If after receipt by Company of payments under para (a), payments under para (b) were insufficient to meet one-twentieth of balance of award, para (c) would come into effect. If Iran were exporting 10 million tons of oil and products, 25 percent of gross proceeds from sale of these 10 million tons would go into escrow account pursuant to para (b) and in addition Anglo-Iranian would be entitled to receive 2½ million tons of crude oil free of charge. If Iran's exports were zero, AIOC would be entitled to receive 5 million tons of crude oil free. If Iran's exports were 30 million tons, 25 percent of the proceeds would be deposited in escrow pursuant to para (b) and nothing would accrue under para (c). The effect of the provision therefore is not to set a limit upon amount of effective award which Court could make, but to protect Iran from having to pay more in any one year than her economy should be well able to bear.

Para 4 of the Annex of the *Aide-Mémoire* handed to the Department on December 19, 1952 by Burrows[4] reads as follows:

> "4. Thirdly, if in the end an award for the payment of compensation by Persia is made by the Court, it would clearly be disadvantageous to press for payment in any manner which could not be borne by Persia, and the Court could be asked to determine the manner in which, and the period over which, compensation should be paid. The implementation of the Court's award must depend upon Persia's ability to pay and thus upon Persia deriving substantial benefits from a prosperous oil industry."

It seems to us that above formula is within the spirit of this paragraph.

Furthermore, we feel that if Compensation Agreement clearly spells out in its provisions concerning method of payment a limitation which should be consistent with Iran's capacity to pay, the International Court would feel itself to be in a freer position to judge compensation question purely on its merits.

We are, however, concerned that Mosadeq may try to trade down period of years or percentage of gross receipts to figure which would impinge upon effectiveness of International Court's award. We think that would be less likely to happen if Henderson were authorized to explore with Mosadeq the above formula as being his idea without any prior commitment on part of either London or Washington.

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[4] For the complete text of the *aide-mémoire* and attached annex, see Document 252.

Your prompt comments are requested.[5]

MATTHEWS

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[5] The Embassy in London responded on Feb. 2 that it had conveyed the contents of telegram 5076 to the British Foreign Office that morning with the request that the Foreign Office give it urgent and sympathetic consideration. The Foreign Office representative felt the Department's formula was "ingenious", but he could not commit himself on the substance pending further study by the interested departments of the British Government.

As requested, the Embassy provided comments of its own, among them the prediction that the British would undoubtedly be hesitant to agree to proceed with a formula which initially would open up wide possibilities for bargaining over the period of years, the percentage of gross receipts, and the valuation of the crude. (Telegram 4259; 888.2553/2-253)

On Feb. 1 Ambassador Henderson responded that he also considered the suggestions to be ingenious and was optimistic that if the British would agree to a suggestion of this kind, the Western partners would probably be able to find an exit from what threatened to be a deadlock. (Telegram 2978; 888.2553/2-153)

No. 295

888.2553/2-353: Telegram

The Acting Secretary of State to the Embassy in the United Kingdom[1]

SECRET WASHINGTON, February 3, 1953—6:16 p.m.
PRIORITY NIACT

5147. For Secretary and Holmes. Representatives British Embassy presented last evening British reply to our latest comments on draft agreements as contained Deptel 4774, rptd Tehran 1783.[2]

British stated their preferred alternative was that there be no further approach to Mosadeq. We should instead sit tight waiting for Mosadeq to request resumption conversations, which should be based upon documents presented to him on Jan. 15th. They stated they realized we might interpret proposals made by Mosadeq in conversation of Jan. 28th[3] as counter-proposals which needed some reply on our part. If we could not agree therefore that no further approach should be made they would reluctantly agree to go ahead with alternative 2.

Alternative 2 would be approach by Henderson to Mosadeq which would be designed to get conversations back on basis they were prior to January 28. Following paragraph on tactics is taken verbatim from FonOff message to Brit Emb:

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[1] Repeated to Tehran for Henderson. Drafted and signed by Byroade.

[2] Document 288.

[3] See Document 293.

"Mr. Henderson might try to bring Dr. Mossadegh back to considering the proposals of January 15th. I do not mean that Mr. Henderson should produce any new documents. The more documents we give Dr. Mossadegh the greater the danger of his publishing them in the event of a breakdown and the greater the danger that no future Persian Government would be willing to resume where Dr. Mossadegh had left off. Mr. Henderson could ask Dr. Mossadegh to forget their conversation of January 28th and to address himself to the proposals of January 15th which were a fair and reasonable offer. Mr. Henderson would have to explain that these proposals must be taken as a whole and sprang from Dr. Mossadegh's acceptance of the principle of international arbitration and a claim to compensation for loss of profits. He would make it perfectly clear that he was not authorized to discuss proposals on any other basis, though pure points of drafting would be a matter for discussion and mutual accommodation."

Dept officials pointed out that their assumption we would not like alternative 1 was indeed correct. We further stated that we were quite disappointed at their suggestion on tactics proposed in alternative 2. Considerable progress had in fact been made on many points since documents had been given Mosadeq on Jan. 15th. In the conversations, for instance, was Henderson to imply that British were not willing to see dispute classified as between States, which was a Mosadeq suggestion that greatly reduced complexity of documents? There were other points of similar nature in compensation agreement which had been clarified since 15th. This was the case as well with DMPA contract in which we were willing meet Mosadeq's objections on nomenclature of US agency involved and on the point on interest.

For above and other reasons we stated we believed it essential that Henderson have our latest views on text of documents that would be acceptable prior to seeing Mosadeq. If we adopted without change British position we felt there was great chance of complete rupture in conversations. The discussion on this point was inconclusive.

We stated our disappointment that British had apparently not taken into account our latest suggestions contained in Deptel 5076, rpted Tehran 1919[4] prior to sending us their comments. We pointed out that in our approach we had picked out only those elements of Jan. 28th conversation on part of Mosadeq that seemed to us reasonable, or in fact advantageous to British. While British reps made several comments upon our latest suggestions in above message, it was obvious they were without detailed instructions thereon. British representatives were informed that in view of nature their proposals serious thought would have to be given to next steps and we would be in touch with them later.

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[4] *Supra.*

We regret loss of momentum which obviously has occurred in London on this problem. As seen from here we would suspect British have again come to conclusion it is impossible to deal with Mosadeq and we must admit his shifting positions give rise to such conclusions. We also believe, however, that British are uncertain as to what point US will stop pressing them to make concessions. There may be some feeling that they are on "slippery slope" in which US will eventually succeed in getting them to drop matters of real principle. We have attempted to assure British on this point here orally but have not been able to do so in writing as we would thereby get ourselves into a position of backing to the end every last word and comma of documents yet to be agreed for next approach. We would, to certain extent at least, be again in "joint approach" rut. On other hand we do feel that British position is relatively close to rock bottom on principles and have no intentions of pressing them much further.

In view of all above we believe it best that next approach by Henderson be on documents that British are not committed to. There is no doubt that under present tactics, with British committed in advance to a particular paper, Mosadeq is in position of continuing to whittle away at the package. On Henderson's next approach he could state that Mosadeq's changing positions have really made it impossible for us to continue attempt get prior agreement from British as to what we think he will accept. US (or Henderson himself, if this seemed preferable) had therefore attempted to put on paper an offer which seemed reasonable from our point of view. If Mosadeq could agree to it we would then see if British could agree, but he should understand that we were not certain under present circumstances that their agreement would be forthcoming. It is our thought that we should make documents as close as possible to present British drafts and with only such changes as correspond to points Mosadeq has raised which we consider reasonable. We would show documents to British but would not expect more than a "no objection" to our proceeding on this basis. If Mosadeq rejected principles of our offer we should probably be in a position of withdrawing from negotiations.

The above approach, with corresponding documents, is transmitted at this time in view of possibility of talks on Secretary's level in London[5] and the desire to obtain quick comments from Henderson.[6] As we consider this general approach, although perhaps modified somewhat in light of further study, preferable to either of British alternatives, we recommend in event Eden raises this subject that Secretary attempt keep matter sufficiently flexible in his talks to allow come back to British along these lines.[7]

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[5] Secretary of State John Foster Dulles and Mutual Security Agency Director Harold E. Stassen were in London in the midst of an orientation trip to Western Europe, Jan. 31-Feb. 8. For documentation regarding this visit, see vol. v, Part 2, pp. 1548 ff.

Texts of documents for above approach will follow separately.[8]

MATTHEWS

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[6] On Feb. 4 Ambassador Henderson commented that he was certain that Mosadeq, although he had shifted his position on other matters, would continue to refuse to accept a compensation formula that would involve Iranian payment of future profits. Therefore, if the British wished to continue to insist on such a solution, Henderson thought that he and the Department should be considering how the conversations with Mosadeq could best be terminated from the Western point of view. Moreover, Henderson, like the Department, thought the first British alternative was out of the question. He also disliked the second alternative, claiming it would be a waste of time for him in the future to go back to Mosadeq and to discuss the Jan. 15 proposals since he would merely be repeating statements already made to Mosadeq. Nor did Henderson believe the Department's approach outlined in telegram 5147 would result in a solution of the oil dispute, although he did feel it was a suitable way to bring the present conversations to a close. (Telegram 3035; 888.2553/2-453)

[7] According to a memorandum of conversation dated Feb. 4 between Secretary Dulles and Foreign Secretary Eden, this subject was not raised, although other matters pertaining to Iran were discussed in an inconclusive fashion: whether Alton Jones' technicians should continue to be delayed from going to Iran, and whether Iran would go Communist in the near future. (611.41/2-453) For further information, see footnote 3, Document 314.

[8] Transmitted in telegram 5148, Feb. 3, not printed. (888.2553/2-353)

No. 296

888.2553/2-1053: Telegram

The Secretary of State to the Embassy in the United Kingdom[1]

SECRET NIACT WASHINGTON, February 10, 1953—1:01 p. m.

5294. Eyes only Henderson and Holmes. Delay in Washington in reaching decision on future course of action in Iran negotiations has resulted from reluctance to proceed on course which seems have remote chance of success, yet on other hand we have been unable devise any new formula likely be agreed by both Mosadeq and British. We have also been disturbed by factor which has become more apparent to us in last few weeks and that was vividly brought to mind by Mosadeq's threat sell oil to all comers at 50 percent discount.[2] We have long felt that deterrent to dumping of Iranian oil was not primarily threat of British legal action but more the result of factors attributable to commercial situation, of which availability of tankers was perhaps greatest. It is rapidly becoming apparent that future tanker situation, including charter rates, will be such in very near future that Mosadeq may be able to carry out his threat. This seems to us an inescapable fact.

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[1] Transmitted in two sections; also sent to Tehran. Drafted by Byroade, cleared in substance with Secretary Dulles and Under Secretary Smith, cleared in draft with Nitze and Linder, and signed by Byroade.

Daily charter situation has weakened substantially with single voyage rates quoted as low as 40 percent below US Maritime Commission rates for foreign flag vessels. This compares with 100 percent to 200 percent premiums 12 or 18 months ago. Charters over 1 or 2 years are about 15 percent below USMC which compares with the 50 percent premium fixed few months ago. Construction proceeding at level which gives little indication of anything other than easy supply situation for future.

British of course know that we consider a number of solutions vastly preferable to no solution at all. These would include reasonable lump-sum settlement or provision for compensation through a long term contract with AIOC at excessive discount. Either of those solutions seem to us to hold less danger from viewpoint of effect on other oil producing areas than does no solution at all. Since British have often stated their primary concern to be effect of an Iranian solution on other areas, we think they should take good hard look at possible effect of no solution at all. On our part, we cannot fail to be concerned at what we consider may be effects of no solution on other areas of the world in which both of us have an interest.

Also, and again because of commercial factors outlined above, we believe British bargaining position will become worse in future, as regards Iran, than it is at present. It seems to us that this factor as well should be carefully analyzed by British before present negotiations are allowed to fail.

British have come a long way, and proposals upon which we could agree for next approach to Mosadeq, presumably along lines of the first alternative text contained in Deptel 5148 (rptd Tehran 1953)[3] are not unreasonable. Neither do we consider unreasonable however, in political situation in Iran, Mosadeq's concern over accepting a solution which can be politically termed "bondage forever" to British. There is in fact a practical limitation upon Iran's ability to pay and upon the worth of the property taking into account its earning power. We believe, therefore, that British should at least attempt meet this concern of Mosadeq in manner somewhat along lines of alternative method of payments provisions contained in above reftel. We feel same way about question of payment of interest.

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[2] On Feb. 3 Henderson reported on a conversation he had that day with Mosadeq, in which the Iranian Prime Minister said that if the British continued to insist on a formula which would involve the payment of future profits, he would contemplate asking the Majlis to agree to his announcing that Iran would be willing to sell its oil at a 50 percent discount to all customers. (Telegram 3016; 888.2553/2-353)

[3] Not printed. (888.2553/2-353)

From our point of view there are two possible alternative approaches. Henderson could return to Mosadeq with texts contained in above reftel, substituting the alternative section on method of payments presented latter part that message in his initial presentation, so that we will at least have some, although admittedly small, chance of success.

Second alternative would be for US to withdraw from negotiations without reference to further documents. We could inform Mosadeq that since proposals presented him on Jan 15th were unacceptable to him, and since his suggestions of Jan 17th as later supplemented were unacceptable to British, and since US has been unable find way of bridging these differences, US Government had reluctantly come to opinion that there is nothing further Henderson can do at present time to promote settlement of dispute.

We would clearly prefer first alternative. If negotiations fail, under this alternative they would fail over Mosadeq's refusal to agree to a specific offer placed before him which meets his "economic bondage" point. There would be real public relations advantage in having the negotiations fail in that manner rather than in present somewhat confused state as to where the parties really stand. We also feel that if negotiations fail without return offer of this type Mosadeq would be able to assert effectively that British have refused any type of settlement which did not imply that Iran might be called upon to pay indefinitely and in amounts which would be beyond her capacity to pay.

We feel that whatever we do should be done quickly as all evidence indicates Mosadeq will not refrain much longer from breaking negotiations by explanations to Majlis and press.

British Ambassador is being given oral presentation of our views on commercial aspects this problem. British Embassy here being furnished texts in Deptel 5148 and contents this message.

Request Embassy London undertake preliminary task obtaining British reaction this message.[4]

DULLES

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[4] The Embassy in London reported on Feb. 11 that the contents of telegram 5294 and the texts contained in telegram 5148 to London, Feb. 3 (888.2553/2-353), were conveyed to the Foreign Office that day The Foreign Office desired to reserve comment pending study. (Telegram 4457; 888.2553/2-1153)

No. 297

888.2553/2-1453: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET **NIACT** TEHRAN, February 14, 1953—5 p. m.

3184. Eyes only Secretary, Byroade.

1. Prime Minister asked me see him noon today. He opened conversation by stating that it had become clear British had no desire to come to oil settlement; that he could no longer cope with his critics who were demanding prompt action in view of steady financial, economic deterioration; and that he had therefore decided to send message to Majlis on February 17 informing it there was no longer any hope oil settlement and requesting its approval that Iran begin sell oil at once to any buyer at any prices which would be paid. He realized US concern at sale oil to iron curtain countries but nevertheless in view Iran public opinion, he had no choice in case breakdown conversations other than to sell to any country willing to buy unless US Government or nationals should indicate their readiness to purchase Iran oil in considerable quantities.

2. I told Prime Minister I thought such action would be premature. I still hoped during course of coming week to receive instructions which would permit me to renew attempt to find bridge between his position and that of British. Prime Minister said he appreciated efforts which had been made to find solution but he now convinced nothing would come of them. I admitted he might be right, but insisted that so long as there was shadow of possibility of settlement, he should not act too hastily. He finally agreed postpone taking action until February 21. If by that day he and British had not arrived at agreement, he would be compelled to send message as outlined to Majlis.

3. Prime Minister asked what would happen if during coming week conversations would terminate in failure. I said it seemed to me that he in better position that I answer that question. Although I did not wish to endeavor to persuade him against selling oil at cut prices to any buyer, I nevertheless thought it my duty as friend of Iran to tell him that Iran's financial problem would not be solved by sales of this kind. Few responsible firms would be willing to come forward promptly to buy Iranian oil even at cut prices in absence settlement of compensation problem. Any sales which he might make to iron curtain countries or to adventurous business firms in free world would be so negligible that Iran would continue

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[1] Transmitted in two sections; also sent to London eyes only for Holmes.

to be faced with difficult budgetary and economic problems. Only real immediate answer to Iran's financial and economic difficulties was settlement of compensation problem to be followed by arrangements for sale of oil in substantial quantities to buyers with adequate transport and distribution facilities. Only potential buyer at present able to distribute Iran oil in substantial quantities was AIOC. If Iran sincerely hoped to find solution for its financial and economic difficulties through its oil industry, it should be prepared not only to settle compensation problem but to sell oil in large quantities to AIOC or some international company in which AIOC would play major role. Prime Minister said he prepared to sell oil to international company in which AIOC participated provided agreement could be reached re terms of sale. He saw little chance, however, of solution of compensation problem. I told him that it seemed to me present issue re compensation was that Iran did not wish to agree to terms of reference in adjudication by international court which might result in country being called upon to pay more compensation than it considered itself able to pay, whereas British, in view of opinion of their public and of that of whole business world, could not agree to terms of reference, which would confine payment of compensation to losses of physical property of AIOC in Iran.

Prime Minister agreed but insisted that he had advanced suggestion for avoiding such issue through conclusion of agreement with British for payment by Iran of 25 percent of proceeds from oil exports during number of years to be agreed upon. It was his understanding, however, that British did not want to listen to suggestions of ways of settling oil problem other than through arbitration or adjudication. British could not but realize after our various conversations that no agreement could be reached regarding terms of reference for ICJ. Their refusal, therefore, to consider other ways of solving problem was to him convincing evidence that they did not wish settlement. British while pretending that they desired settlement were using their numerous Iran contacts in endeavor to overthrow him through alliances of forces including Bahtiari and other tribal elements, fanatical religious groups led by irresponsible mullahs, disgruntled reactionary elements in army and bureaucracy, discarded politicians and Communist front organizations. They apparently hoped there would emerge from chaos following such overthrow some government which would be subservient to them. They might possibly succeed in overthrowing his government but if they did so they would also be eliminating Iran from free world. He did not intend remain idle while Iran was being destroyed. He would take countermeasure. He was issuing order for stern suppression of uprisings among Bahtiari tribes. He hoped that execution of this order would not give rise to impression that there was friction between him and Shah. He could not however fail to maintain security in Bahtiari territory merely because wife of Shah was of Bahtiari origin.

4. I told Prime Minister I was persuaded that British Government was just as anxious as he was for oil settlement; that it would like to reach agreement with him so advantageous both to Iran and UK that it would be durable. It seemed to me that therefore we should be concentrating on settlement of oil problem. He should not be too pessimistic regarding possibility settlement; there was widespread belief few weeks ago that settlement between Egypt and UK of Sudan question would be impossible;[2] nevertheless as a result of statesmanship of high order both in UK and in Egypt agreement with Sudan had just been reached. Prime Minister expressed surprise; said he had not heard of this agreement and asked details. I told him my information scanty, but I would outline what I had learned from foreign press reports. He said he quite sure Egypt would be loser. Naguib was British stooge and any Pakistani who would be appointed as neutral would also be under British influence. I told him I not prepared to argue merits of agreement with him; nevertheless such information as I had would not confirm his belief Naguib was British stooge. I knew from personal experience that although Pakistan was member of Commonwealth, Pakistan acted independently in foreign affairs and Pakistanis were not any more pro-British than pro-Egyptian.

5. After some further discussion, Prime Minister said he would stand by his earlier statement. If by February 21 his counterproposals had not been accepted or if he had not received fresh proposals which seemed to promise solution, he would send message of character outlined to me to Majlis.[3]

HENDERSON

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[2] For documentation concerning the Anglo-Egyptian agreement of Feb. 12 regarding the Sudan, see vol. IX, Part 2, pp. 1743 ff.

[3] The Embassy in London reported on Feb. 15 that an Embassy official conveyed the contents of telegram 3184 from Tehran to the Foreign Office, with the exception of the references to Naguib and Pakistan in paragraph 4. (Telegram 4542; 888.2553/2-1553)

No. 298

888.2553/2-1853 Telegram

The Secretary of State to the Embassy in Iran[1]

SECRET NIACT WASHINGTON, February 18, 1953—9:12 p. m.

2139. Eyes only Ambassador. British Ambassador today gave us UK reaction to our latest proposals on Iran (ref Deptel 1953 to Tehran, rptd London 5148, as amended by Deptel 2063 to Tehran, rptd London 5360[2]).

We informed British that we could accept their suggestions with exception of the question of tactics under Para 7. We stated we believe this would put you in impossible position as conversations based upon 15 January drafts as now modified, but excluding alternative section on method of payment and the concession on the matter of interest payments, would be certain to be of extremely short duration. This would place you in position of then offering Mosadeq a concession which you were obviously holding up your sleeve. We stated that in view of time limit we felt only possible solution was for you to present drafts which would contain both alternatives on the question of method of payment. Makins is urgently cabling London and he expects have their answer by early morning. We will contact you immediately when decision is reached.

As a minor point in above text, believe you should know that the conclusion stated in first sentence of Para 6 is in our opinion true only under most unusual circumstances regarding flow of oil, etc. It would be more accurate if this sentence indicated that the new suggested formula "might" constitute a heavier burden, etc.

Although still not perfect from our point of view, we believe the British have attempted to meet our latest suggestions and have now come to a point where we can no longer press them on matters of real principle. British agreed that in your presentation you could explain their formula meant in effect 20 years. British Ambassador was informed that, if they would agree to our suggestion on tactics, this would constitute in our opinion the final proposals to be placed before Mosadeq in this series of negotiations and that we could stand on principle thereafter. We did not, of course, rule out reconsideration of minor points that Mosadeq might raise.

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[1] Repeated to London eyes only for the Ambassador. Drafted and signed by Byroade.

[2] Neither printed. (888.2553/2-353 and 888.2553/2-1153)

Text of British Memorandum is being wired separately to Tehran in our immediately following telegram.[3] We assume Embassy London will have received copy from Foreign Office.

DULLES

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[3] Telegram 2140 to Tehran, Feb. 18, not printed. (888.2553/2-1853)

No. 299

888.2553/2-1953: Telegram

The Secretary of State to the Embassy in Iran[1]

SECRET NIACT WASHINGTON, February 19, 1953—4:40 p. m.

2145. Eyes only Ambassador. British have just delivered following message from HMG.

"Her Majesty's Government agree that both proposals for the method of payment might now be put to Dr. Musaddiq. They would suggest that Mr. Henderson might speak on the following lines:

2. Mr. Henderson would remind Dr. Musaddiq that he had reported all their conversations to Washington and to London. The two Governments had the impression that Dr. Musaddiq was seeing difficulties where none existed and was quite unreasonably suspicious of British motives. The proposals put to Dr. Musaddiq on January 15th were a serious offer which world opinion would recognize as just and equitable. Dr. Musaddiq should look at these proposals again. In drafting them, our Governments had done all they could to meet Dr. Musaddiq's public relations difficulties, and Mr. Henderson would hope that Dr. Musaddiq would, on reflection, find the proposals acceptable. At this stage, Mr. Henderson would no doubt mention the minor changes listed in the final enclosure to this Embassy's memorandum of January 18th which Her Majesty's Government were prepared to introduce in a further effort to meet Dr. Musaddiq.

3. Mr. Henderson could add that finally Her Majesty's Government were also ready to meet his point in regard to the need for a maximum period within which the arbitral award would be paid, and that Dr. Musaddiq would see that the formula suggested would have that effect. Mr. Henderson would make it clear to Dr. Musaddiq that both Governments had said their last word and that Dr. Musaddiq could not expect any further modifications.

4. Her Majesty's Government would hope that the State Department will see their way to instructing Mr. Henderson in accordance with the above suggestions."

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[1] Repeated to London eyes only for the Ambassador. Drafted and signed by Byroade.

Minor changes referred to in last sentence of paragraph 2 above to which HMG are prepared to agree are as set forth below. They are of course already included in drafts sent you but FYI British recapitulation was as follows:

"Proposals of January 15th.

Following are the modifications in the proposals of January 15th to which HMG have agreed.

> I. Her Majesty's Government to be a party to the arbitration instead of the AIOC;
>
> II. Omission of reference in preamble of arbitration agreement to previous history,
>
> III. Omission of provisions for Court's procedure in arbitration agreement;
>
> IV. Definition of the Anglo-Iranian Oil Company in DMPA Agreement and Arbitral Agreement as 'United Kingdom registered company which formerly operated in Iran, hereinafter to be referred to as the Company'.

Two further changes which mainly concern the United States are:

> V. Substitution of another United States Governmental Agency for the DMPA.
>
> VI. Omission of the provision for the payment of interest in the MDPA Agreement, provided that the essential characteristics of that Agreement remain unchanged."

Our comments in immediately following cable.[2]

DULLES

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[2] Telegram 2146 to Tehran, Feb. 19, reported that the Department was not certain that the British tactics were best in light of the immediate situation. Henderson was authorized to proceed with Mosadeq on the basis of such tactics as he considered wise, bearing in mind the British views. (888.2553/2-1953)

No. 300

888.2553/2-2053: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET NIACT TEHRAN, February 20, 1953—4 p. m.

3304. Eyes only Secretary and Byroade.

1. I found Prime Minister this morning in what seemed to be exceptionally good humor (Embtel 3296, February 20, repeated

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[1] Transmitted in two sections; also sent to London eyes only for the Charge

London 1064).[2] Following exchange amenities I told him that after weeks of study and discussion between British and American Governments in light conversations which had taken place between him and myself, I had finally come to present him with some proposals in form two documents, a draft compensation agreement and a draft heads of agreement.

2. I said first document represented British proposals for settlement compensation problem, proposals which US Government and I myself considered to be fair and which if accepted would enable Iran to surmount difficult problem of compensation without danger of finding itself saddled with unbearable burden of indebtedness. Compensation draft have been prepared in two versions, both of which I would present in due course. He would find in examining them that British had done their utmost, without abandoning principles to which they considered they must adhere, to meet various proposals which he had made. They could not go further.

3. Re heads of agreement he would find also that US original draft had been amended in order to conform so far as possible with views which had been expressed by him.

4. I said that before handing him these documents I would like to emphasize that US Government would not have sent them to me and I would not be giving them to him in my present spirit of hopefulness that they would be accepted unless both US Government and I were convinced that their acceptance would be to benefit of Iran Government and people. If he would not find it possible to match conciliatory attitude displayed by British Government, US Government would have no choice other than to decide that no useful purpose would be served for it to endeavor to keep present conversations alive. I had deep sense responsibility in presenting these documents to him and I could understand that he must have an even greater sense of responsibility toward not only his own people but toward peace-loving people everywhere in making decision which now awaited him.

5. Prime Minister expressed his appreciation of efforts which US Government had made. He said regardless outcome our present conversations he personally had no doubt that US Government in endeavoring promote settlement had interest of Iran at heart. I said that I was convinced that Government UK in spite of absence

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[2] In telegram 3296 Ambassador Henderson reported that he had presented the proposals to Mosadeq shortly before noon that day, and that Mosadeq had made no comment regarding the heads of agreement and confined his remarks virtually to the terms of reference. Mosadeq said he did not see how he could accept the terms of reference, but that he would discuss them with his advisers. In summary, Mosadeq said he would probably have to reject the proposals primarily because of the terms of reference. (888.2553/2-2053)

of relations with Government Iran also had at heart Iran interests and had no desire to obtain agreement which would be at all oppressive to Iran. Substance of proposals I was about to give him would be eloquent testimony of British goodwill.

6. We first considered two alternative drafts of compensation agreement. In order simplify explanations I asked him first read brief summaries of main points which I had prepared in advance. He read them carefully and after asking few questions maintained that he understood them. He then read full texts of drafts. He said that before discussing them he would like to examine heads of agreement. This document he also read with care. He said this draft so clear he had no question to ask regarding it at this time. He would like however to raise certain points re compensation agreement.

7. Prime Minister indicated that he would prefer to discuss what we had labeled as alternative compensation agreement. Although he did not say so explicitly I obtained impression he was not interested in draft similar in character to that of January 15. He said it seemed to him that although this draft was somewhat different in form from original proposals made to him on January 15, there was really very little difference in substance. I explained to him along lines suggested in British message of February 19 set forth in Deptel 2145, February 19 various changes and concessions which had been made. I also pointed out that in alternative draft problems arising from payment of interest had been eliminated and that payments could be completed within at least twenty years without undue strain on Iran economy. It could be no hardship for Iran to pay 25 percent of gross receipts from exports of oil plus such annual deliveries of crude oil or oil products as might be necessary. Prime Minister said he noticed British were still asking for 25 percent of gross proceeds, whereas he had suggested 25 percent of net proceeds in accordance with Iran law.

I replied that US Government agreed with British that it might be difficult to determine precisely what net receipts were and that it would be much simpler to use gross proceeds as base. In any event payment based on gross proceeds would not increase amount compensation due; it would merely mean that compensation would be paid faster. Prime Minister said that his idea had been that net proceeds could be set arbitrarily as 80 percent of gross proceeds so that Iran would be paying 20 percent of gross proceeds annually rather than 25 percent. Nevertheless, he inclined personally to agree—he did not know what his advisers would say—that this question was not too important.

8. Prime Minister said that most serious objection which he had to proposals was to terms of reference. He was sure that in their

present form they would be unacceptable. British had made no concession whatsoever in them. They still were asking for inclusion of expression "loss of the company's enterprise in Iran" and of wording which made it clear that it was their intention that court should employ principles of coal nationalization law in determining amount of compensation due. He had already indicated several times to me that he could not accept terms of reference of this character. He could not understand why British were continuing to insist that coal law be used as basis for determination of compensation to company. I said he himself had first suggested that compensation should be determined on basis of some British law acceptable to company and that language used in present draft had been decided upon in order that his suggestions might be made applicable to case at issue. Prime Minister said he thought it would be much better to give court more leeway in deciding how it should determine amount of compensation due. I said he himself uniformly had insisted that court should not be given full discretion. He had been arguing that court should give compensation for no losses other than for those incurred by company as result confiscation its physical property in Iran. It was to be regretted that formula contained in draft was not satisfactory to him but it represented best efforts of British to meet his desires and US Government considered that it was fair and that its acceptance would not be harmful to Iran in framework of whole draft. Prime Minister repeated that he did not believe that proposals which I have given him could be accepted particularly in view of wording of terms of reference, nevertheless he did not wish to give me definite answer until he could have talk with his advisers.

9. I told Prime Minister I had no reason to believe his advisers were not patriotic Iranians interested in welfare of country. Nevertheless, I ventured express hope that in talking with them he should remember that they were only three or four men possessed of usual human frailties and that behind them were some 18 million other Iranians whose future happiness and prosperity could be seriously affected by decision which he would make. I hoped that he would find it possible to let his advisers know that they also had grave responsibilities and that if they should begin to emasculate drafts which I had given him he would tell them that their action might result in grave harm to Iran. Prime Minister accepted my remarks with apparent good grace, expressed appreciation again of

the efforts which US Government had made and said he would give me answer as soon as possible.[3]

HENDERSON

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[3] On Feb. 20 the Embassy in London reported that it had informed the Foreign Office of the entire substance of telegram 3304 from Tehran. (Telegram 4690; 888.2553/2-2053)

No. 301

788.00/2-2253: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET PRIORITY TEHRAN, February 22, 1953—2 p. m.

3334. 1. Ala, Minister of Court, asked see me this morning. He said he wished discuss "most serious recent development". On evening February 19 Prime Minister Mosadeq had telephoned him requesting that responsible member of Court call on Prime Minister early morning 20 in order take personal message to Shah. Shah sent one of his Councillors who happened to be half brother Mosadeq. In presence Shayegan and two other deputies Mosadeq brusquely requested emissary to tell Shah that he could no longer tolerate unfriendly attitude of Shah and Court and that therefore on February 24 he would resign and would make public announcement to effect that reason for resignation was his inability effectively to perform his duties as Prime Minister while Shah and Court were intriguing against him. Mosadeq maintained that Shah was responsible for tribal unrest particularly among Bakhtiaris; that Shah was encouraging officers of Army who had been retired to plot against him; and that Shah and Court were encouraging conspiracies of various kinds, purpose of which was to handicap Prime Minister and bring about his downfall. Emissary vigorously denied these charges and appealed to Mosadeq on grounds patriot is not to make any move which might weaken position Shah. Shayegan and other deputies also asked Prime Minister to reconsider his decision. Prime Minister, however, was adamant.

2. Shah was deeply disturbed when he received message and asked Ala intervene. Ala therefore called upon Mosadeq on morning February 21. He also found Prime Minister intractable. Latter enumerated long list of grievances against Shah including events of last July when he charged Court supported Qavam against him. He also charged that Shah's family particularly brother and Princess

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[1] Transmitted in three sections; also sent to London.

Ashraf had continuously intrigued against him. According to Ala he vigorously defended Shah. He maintained that Shah had been of opinion that Mosadeq should remain in office at least until solution oil problem had been found and had consistently discouraged attempts to have him replaced; that Shah still believed that Mosadeq should continue as Prime Minister since Mosadeq was better qualified than anyone else to effect solution. Ala insisted that Shah in his desire to cooperate with Prime Minister had sent his mother and Princess Ashraf out of country and was not permitting them to return despite fact he did not believe they were guilty of charges made against them by Mosadeq. Shah had resisted demands Mosadeq that latter be made Minister Defense because he thought that he was better acquainted with army problems and personnel than Mosadeq, nevertheless in order that Mosadeq would be willing again to become Prime Minister Shah had capitulated even in this respect. As result Mosadeq's inexperience in dealing with military matters Army was now in bad condition with low morale. Although Shah believed that his judgment in this regard had been correct he nevertheless continued to support Mosadeq when complaints were made against him by those worried re deterioration armed forces.

Mosadeq also had repeated to Ala his charges that Shah was responsible for recent uprising led by Abol Qasem among Bakhtiari tribes. Ala had denied these charges. He told Mosadeq that Bakhtiari chieftains friendly with Shah and loyal to Government had warned Mosadeq not permit Abol to return to South Iran. Mosadeq had not heeded these warnings. Ala said that he could not but think that perhaps Mosadeq had decided to resign because of inability solve oil problem and because of international political difficulties and that Mosadeq instead of admitting his own failures was trying place blame on Shah. If such was case he hoped Mosadeq would reconsider. It would be unfortunate if after fifty years of public service Mosadeq would retire in manner which would be not only unchivalrous but harmful to interests of country. Mosadeq vigorously denied failure re oil settlement. He said he had just received new proposals which would place him in better position to continue negotiations and that he had no doubt that if he had been given full support by Shah he could eventually have worked out settlement in manner completely advantageous to Iran. There was no use however for him in present circumstances to try to accomplish anything.

3. Ala said Shah had asked him discuss this matter confidentially with me. Shah and he still hoped that Mosadeq could be placated without Shah making concessions which would completely undermine royal prestige. At Shah's request Ala had told Mosadeq that Shah prepared to leave country and to stay abroad until Mosadeq

requested his return. Mosadeq had said that Shah should not leave country. Mosadeq during conversation of February 21, had criticized Shah for his program of dividing Crown lands among tenants. He had said that Shah should turn lands over to Government and allow Government to determine their disposition. Mosadeq had also referred again to revenues at present at disposal of Shah from Meshe-Rine [*Meshed Shrine*] and other sources, maintaining that Shah should have control only of revenues appropriated by Government for support of Crown. Although Mosadeq made no specific demands on Shah it was clear that he wished to reduce latter to state of servile dependence upon Prime Minister and Cabinet and at same time publicly to humiliate him. Ala said that Shah had no intention of allowing himself to be placed in such impossible position. Shah was considering making every proper effort persuade Mosadeq not to resign and particularly not to issue statement blaming Shah for resignation. If Mosadeq should carry out this threat Shah intended to issue statement immediately in reply to Mosadeq's charges. This statement would be along following lines:

> "I have loyally cooperated with and supported Mosadeq since he became Prime Minister nearly two years ago. It has been and still is my conviction that he is in better position than any other person to restore Iran oil industry on basis which would give lawful control over that industry and would permit revenues from that industry to be used for economic development of country. I regret that Dr. Mosadeq has been misinformed re attitude of myself and of Court which I know has shared my views. I hope that Dr. Mosadeq in view of historical task which he has not as yet completed and of my assurances of cooperation and support will reconsider his decision".

4. Ala said problem is what should be done in case Mosadeq insisted on going into retirement. Who should be successor and how should succession be arranged? On evening February 21 Ala had talked Kashani as President of Majlis on situation. Kashani had seemed pleased. He had said he not surprised at anything which Mosadeq might do and that if Mosadeq should attack Shah in Majlis it would give overwhelming support to Shah. Kashani however had not made any comment as to whether resignation would be accepted by Majlis and if so what successor might be named. Ala had not thought it wise to question Kashani in this regard. Shah had in mind just now two possibilities: General Zahedi and Saleh present Ambassador US. There might be others. One difficulty was Shah did not fully trust Zahedi. Another was there might be delicate interim before Saleh could return from Washington to assume duties. Ala was wondering whether or not Kazemi Vice Prime Minister might not act as Prime Minister until Saleh's

return. Problem here was that if Mosadeq resigned whole Cabinet automatically went with him. Kazemi therefore must be named by Majlis as acting Prime Minister pending Saleh's return. It not possible be sure in advance what Majlis would do.[2]

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HENDERSON

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[2] On Feb. 22 Ambassador Henderson informed the Department that he was uncertain of the reason Mosadeq chose that particular moment to resurrect his old policy, which had been dormant over the past several months, of trying to undermine the Shah's prestige and to strip him of all rights and perquisites. Henderson speculated that, perhaps, Mosadeq had again become suspicious of the Shah since the latter had taken a firm stand regarding the royal rights in the matter of the Meshed Shrine. Once Mosadeq's suspicions were aroused, it was difficult to placate him. Henderson suggested that this might be the prelude to the elimination of the Shah if not the Court as an institution. Or, it might be merely another manifestation of Mosadeq's mental instability. Whatever the reason, Henderson emphasized that he was uncertain of it. (Telegram 3336; 788.00/2-2253)

No. 302

888.2553/2-2353: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET NIACT TEHRAN, February 23, 1953—8 p. m.

3355. Noforn. Eyes only Secretary and Byroade.

1. During my conversation with Mosadeq this evening he stated that (Embtel 3354, repeated London 1089, February 23)[2] British were intriguing in numerous ways to bring about overthrow of his government and at same time were pretending to United States Government that they desired settlement oil problem. British did not really want to come to agreement with him re oil. This was clear from terms of their last proposal to him. If they really wanted agreement they would not have incorporated in compensation agreement draft terms reference provision for determination of compensation in accordance with principles of British coal national law after he had made it clear that he could not accept terms reference so worded. I told him I had reason believe that British proposals were in good faith and that they regarded them with utmost seriousness. I had already pointed out in our last con-

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[1] Also sent to London eyes only for the Ambassador.

[2] In telegram 3354 Ambassador Henderson reported on a conversation with Mosadeq, during which Mosadeq said he had no intention of resigning. Mosadeq did not wish to discuss his dispute with the Shah and said that he was unable to give proper consideration to the oil proposals. (788.00/2-2353)

versation that he had been first to suggest basing of compensation on provisions of some British national law. Prime Minister extracted alternate compensation agreement from his papers. He asked if in my opinion British would accept terms reference reading as follows: "To determine the sum required to provide compensation to the company as result of the Iranian oil nationalization laws of March and May 1951".

I said my instructions were to effect that no substantive change could be accepted in text as proposed. He stated that nevertheless he would like to have my personal opinion as to whether British would accept compensation agreement of type proposed by them with this one change. I repeated I unable to answer that question; my instructions were that there could be no substantive changes. He said that he did not know as yet what his advisers might recommend but it might be useful for him have answer to this question. I asked if I was to understand that two documents which I handed him would be agreeable to him if terms reference would be altered along lines of his inquiry. He said he could make no commitments but he would like have answer to question which he had just proposed. He did not want to suggest to his advisers that Iran accept these two documents subject to change this kind because British after turning down such counterproposal could say that he had practically agreed to their proposals and would use this argument to prevail on successor government to accept their wording of terms reference. I told him that it was difficult for me on purely hypothetical basis to obtain answer to question this kind particularly in view of my instructions.

2. I leave to Department's discretion whether query which Mosadeq has put to me should be passed on to British. It seems to me rather doubtful that acceptance or rejection of proposal should hinge on answer; nevertheless, if it should so transpire that Mosadeq should tell me later that he would accept proposals in case I could assure him that British would be agreeable to such change it might be helpful to me to know what to say. Mosadeq does not know I informing Department re his inquiry which he stressed was of personal nature.

3. I obtained impression from my talk that in spite of Mosadeq's inquiry there is really little likelihood that answer to our proposals will furnish basis for continuance conversations.

HENDERSON

No. 303

788.00/2-2353: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET NIACT TEHRAN, February 23, 1953—9 p. m.

3356. 1. After events of day particularly after my conversation this evening with Prime Minister, I am more convinced than ever that his delay in answering oil proposals is connected with pressure which he is applying to Shah (Embtel 3336, February 22 repeated London 1077).[2] It looks to me that he hopes to exploit undue optimism among public that he is about to succeed in solving oil problem on basis advantageous to Iran in order to obtain sufficient support to win his conflict with Shah and to crush his political enemies. If within next 2 or 3 days he is successful in stripping Shah of such rights and prestige as latter still possesses and in dispersing his opposition he in my opinion is likely with a reconstructed national movement behind him brusquely to reject our proposals without fear of internal repercussions. I am wondering in these circumstances if way could be found to expedite his decision re our oil proposals. If for instance would it be wise to inform him that we would be compelled to withdraw from discussions unless answer was given by certain hour on certain date? I hesitate to make suggestions of this kind, however, because (a) it took British at least month to give reply to his counterproposals and therefore, it might be difficult to explain why he cannot be allowed at least week to give his answer, and (b) Shah may capitulate and opposition may collapse before time set for our withdrawal from discussions and only result of setting time limit would therefore be to increase Mosadeq's hostility toward west.

2. My doubts re Shah's willingness to back any strong personality as successor to Mosadeq have been reinforced by information of absolutely reliable nature to effect that late yesterday Shah had expressed himself as still opposed to Zahedi and was trying to find some means of getting message to Ambassador Saleh inquiring if latter would be willing to accept premiership.

3. Ala plans to see me late this evening. He has just told me on phone that he was somewhat more optimistic. I may telegraph again if what he tells me will shed any additional light on situation.

HENDERSON

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[1] Also sent to London.

[2] See footnote 2, Document 301.

No. 304

788.00/2-2453: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET NIACT TEHRAN, February 24, 1953—1 a. m.

3358. 1. Ala Minister Court came to my house shortly before midnight clearly vastly relieved at what he regards as at least temporary composure of differences between Shah and Mosadeq. He said 7 representatives of Nationalist Movement fraction [*faction*] in Majlis had gone back and forth today between him and later Shah and Mosadeq and as result their and his persuasion Mosadeq seems to have been mollified. He has promised not to press his grievances against Shah at least for time being and to call Shah morning February 24.

2. Ala said that this group deputies told Shah and him this afternoon that although Mosadeq had refused to make any demands on Shah, nevertheless, they themselves had come to opinion that if Shah could persuade Mosadeq that he would no longer follow certain practices or engage in certain activities Prime Minister would probably taken different attitude towards him. More specifically he suggested:

a. That Shah make it clear once for all that officers armed forces must look to Mosadeq not Shah for instructions and preferment.
b. That Shah desist from seeing persons known to be critical of Mosadeq.
c. That Shah stop distributing crown lands to peasant tenants and promise in future to use revenues therefrom for purposes advancing welfare of state in place of revenues which have hitherto come from governmental budget.

3. Shah told deputies they could assure Mosadeq unequivocally re points (a) and (b). Shah defended his scheme for distribution crown lands to tenants insisting that welfare of country demanded large number small farmers. Shah indicated, however, his willingness discuss this matter with Prime Minister. Delegation of deputies seemed satisfied at Shah's assurances and explanations. They conveyed Shah's remarks to Prime Minister shortly after I had left Prime Minister this evening. Following their conversation with Prime Minister Ala called on Prime Minister at their suggestion. He found Prime Minister rather expansive mood. At conclusion of friendly conversation Prime Minister expressed willingness not to press his charges and to talk whole matter over with Shah.

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[1] Repeated to London.

4. Despite Ala's apparent satisfaction at outcome dispute I believe prestige of Shah has sagged sharply and that Mosadeq will continue to humiliate him almost systematically. Ensuing conversation may not be so agreeable to Shah as Ala seems to anticipate. Shah chiefly henceforth to be scapegoat for many of Prime Minister's difficulties.

5. Ala remarked that some of opponents of Mosadeq including Kashani, Baqai and Maki would not be happy at recent developments. Early this afternoon Maki had telephoned Ala to ask him to endeavor persuade Shah not to seek reconciliation with Mosadeq. Maki had insisted that if Mosadeq should attack Shah majority of Majlis and country would be outraged and support Shah. I asked Ala what likely happen to Zahedi now that reconciliation had taken place. Ala said he did not believe any measures would be taken against Zahedi[2] since it was no crime to aspire to Prime Ministership. In any event, Zahedi was not completely trustworthy.

HENDERSON

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[2] Henderson reported on Feb. 25 that Zahedi was arrested that day. (Telegram 3388; 788.00/2-2553)

No. 305

788.11/2-2553: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET NIACT TEHRAN, February 25, 1953—11 p. m.

3393. Noforn.

1. Ala Minister Court came to see me tonight, obviously worried and distressed. Said he wanted to talk in utmost secrecy. During conversation between Shah and Mosadeq on February 24, latter had indicated that it might be good idea after all for Shah leave country as soon as possible and to remain abroad until situation Iran had become more stable. Shah had jumped at chance get out of country; had said he delighted Prime Minister had withdrawn objections to his departure. How soon could he go? Prime Minister had suggested Saturday February 28. During this talk Prime Minister had made no further reference to his previous suggestions that government take over crown lands, Meshed shrine revenues, etc. Prime Minister had insisted he loyal to crown and wanted Shah to go for latter's own good. Shah's departure would prevent

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[1] Also sent to London.

him from continuing to be innocent victim of intrigues against government.

2. Shah told Ala this morning his nerves in such condition he could not remain Tehran until February 28; he desired leave Tehran by auto morning February 26 for Baghdad, visit Holy Cities Qerbala and Najaf, and then go to Europe. Ala in vain tried persuade Shah postpone his departure. Shah insisted Ala immediately request travel documents.

3. Prime Minister told Ala he thought it good idea for Shah leave tomorrow. He could arrange travel documents at once. Ala finally persuaded Prime Minister it would look better if Shah would not go until Saturday. Ala asked re regency in Shah's absence. Mosadeq said he had not thought of that. He then suggested himself, Ghulam Reza (younger half-brother Shah), and Ala. He refused consider Ali Reza, Shah's full brother who usually considered next in line of succession.

4. Shah was perplexed when he learned Mosadeq passing over Ali in favor Ghulam for regency. He feared family rift. Decided to ask Ali accompany him abroad for sake of appearances.

5. Ala fears hasty departure Shah will be interpreted as flight and will lower Shah's prestige to such extent as to endanger institution of monarchy. Shah also thinks it possible Mosadeq may follow Naguib's example. Ala told me he personally in difficult situation. He bound to secrecy by both Shah and Mosadeq. He sees disaster coming yet cannot appeal to other Iranian representatives or leaders for counsel and assistance. He would not remain silent if he convinced any useful purpose could be served in persuading Shah not to leave. Shah at present in almost hysterical state. Ala feared complete nervous breakdown and irrational action if Shah compelled to stay in present circumstances. In order preserve appearances Ala trying arrange for Spanish Government invite Shah for visit. If this arrangement could be effected, it was hoped that first announcement would merely be Shah going on pilgrimage to Iraq. While Shah was in Iraq, announcement could be then made he had accepted invitation to visit Spain.

6. I agree departure Shah may be first step in direction of abolition of monarchy. I asked Ala if there was anything which I could do. He said that he feared not. I was not supposed to know of these plans and it might do more harm than good for me to take any step which might give impression that he had talked to me about them. In any event, Ala thought neither Mosadeq nor Shah was to be swayed from their decision. Mosadeq so unpredictable it useless for me try prophesy what he will do. Although he has assured both Ala and Shah of his loyalty to Shah it quite possible that some of

his advisers who are opposed to monarchy may persuade him in not distant future to demand Shah's abdication.

Henderson

No. 306

788.11/2-2753: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET NIACT Tehran, February 27, 1953—5 p. m.

3431. 1. Court source extremely close Shah told Embassy Attaché yesterday evening that Shah on insistence Mosadeq planning leave country very soon. . . .

2. I had lunch with Ala today. He had just received phone call from Shah who apparently was disturbed at leaks re his departure plans. Shah had asked Ala impress on me secrecy. Ala said Shah had told him that if his plans should become known prematurely, developments might take place which would prevent his departure. I asked Ala if Shah seriously intended leave. He replied in affirmative; arrangements were being made for Shah to broadcast message to people at about 4 p. m. February 28 stating reasons for departure. Shah would leave by car 5 p. m. accompanied by Queen, two servants, several guards. Gharagozlu, master ceremonies, and wife would proceed Baghdad by plane March 1 to join Shah's party. After visit in Spain Shah and Queen plan go to Switzerland for winter sports and medical treatment. I believe despite message allegedly sent me by Shah he really intends leave Saturday evening.

3. Ala says it extremely important that so far as possible press US be influenced to take line that there no great political significance in Shah's departure. Speculation comparing Shah with Farouk would weaken Shah's position. No real parallel. Mosadeq has given word of honor he will not undermine Shah in latter's absence and Shah believes Mosadeq. They are lunching together today.[2]

Henderson

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[1] Also sent to London and Baghdad.

[2] In telegram 4844 the Embassy in London reported that it had informed the Foreign Office of the substance of telegram 3431 from Tehran.

No. 307

888.2553/2-2353 Telegram

The Secretary of State to the Embassy in Iran[1]

TOP SECRET WASHINGTON, February 27, 1953—6:56 p. m.
PRIORITY

2240. Eyes only Ambassador. British Embassy representatives today gave Department following comments on Tehran's 3355 (repeated London 1090):[2] "We should like Henderson to be told at once that Mosadeq's formula would be unacceptable and if Mosadeq reverts to his question, Henderson should say that in his personal opinion the formula would clearly be unacceptable. If Mosadeq pressed him, Henderson could say that he was not in a position to transmit any inquiry on the subject to the US Government from whom he had already received the clearest indication of their attitude and that of Her Majesty's Government".

Based on instructions from Eden, now aboard *Queen Elizabeth*, British added that they never at any time contemplated acceptance of any formula which did not contain reference either to acceptable UK law or (in one way or another) to legal position of parties prior to oil nationalization law.

British Embassy representatives added they were instructed say Mosadeq formula unacceptable even though he might give assurances proposals otherwise acceptable.

Should Mosadeq again pose his previous question re terms of reference above position suggested by British appears to us to be appropriate. Should Mosadeq offer counter proposals Department leaves to your discretion decision whether you should accept and transmit them. (Deptel 2195 repeated London 5669).[3]

DULLES

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[1] Repeated to London eyes only for the Ambassador. Drafted and signed by Richards.

[2] Document 302.

[3] Telegram 2195, Feb. 25, informed the Embassy in Tehran that the Department agreed with the British that no more concessions should be made to Mosadeq regarding an oil settlement. However, Henderson was not to refuse to transmit such counterproposals as Mosadeq might offer. In accepting any counterproposals for transmission, Henderson was instructed to make it clear to Mosadeq that his refusal to accept the present proposals and his submission of substantive counterproposals would in all probability be regarded by both London and Washington as a cessation of negotiations. (888.2553/2-2153)

No. 308

788.11/2-2853: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET NIACT TEHRAN, February 28, 1953—5 p. m.

3449. Early this morning stories regarding imminent departure Shah pouring in from many sources. These stories had conflicting details. Altho some reflected confusion and bewilderment, there seemed be general impression that Shah's decision depart was in some way connected with friction between him and Prime Minister. Most common version was that Shah had decided leave because Mosadeq was threatening if Shah did not do so he would issue proclamation to country criticizing Shah and asking people to choose between Shah and himself.

2. Embassy Attaché reported that at dinner yesterday evening attended by Bazaar merchants, Qashqai Chieftain Khosro, and others, rumors of Shah's departure in immediate future was chief source conversation. Practically all guests present, with exception Khosro, who privately expressed gratification that Shah was leaving, indicated in their opinion Shah's departure would be detrimental to interests country. Similarly at dinner attended by myself last evening editor of largest newspaper in country and chief protocol Foreign Office told me of rumors expressing their concern at ultimate effects on country.

3. I decided this morning that since news was now out I was more free than hitherto to try to effect cancellation or at least postponement Shah's plans leave country. Unable obtain appointment with Foreign Minister I was able arrange see Ala, Minister Court, at 11:15. Ala had just returned from audience with Shah. He told me he had done utmost persuade Shah at last moment not to leave. Shah however was determined insisting that if he did not depart Mosadeq would issue proclamation attacking him and members his family; it would be difficult for him without necessary facilities effectively to answer charges which would be made against him. He preferred leave country to becoming involved in one-sided squabble. Ala said that while he was with Shah word had been received that at instance Kashani, President Majlis, who claimed to have heard news of Shah's departure only this morning, informal closed meeting of some 57 members Majlis was taking place to discuss situation. When Shah received this news he had become excited and insisted on leaving at once before lunch because he was

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[1] Transmitted in four sections; also sent to London, Baghdad, Ankara, and Dhahran.

afraid that if he did not get away so much pressure would be brought upon him that he would have difficulty leaving without incident. . . .

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5. . . . At that moment messenger informed Ala that Bureau of Majlis had arrived with request that Ala arrange for it deliver urgent message to Shah. I returned to Embassy.

6. On my arrival I learned that members Majlis in secret session had decided send message to Shah to effect that his departure from country at this time would be inadvisable. I was also told by acting Air Attaché that Chief Air Staff had just informed him that General Baharmast Chief of Staff was en route Palace to inform Shah that whole General Staff had decided to resign in case Shah should leave country. Thus far unable to obtain confirmation firmness of resolve General Staff in this respect.

Baharmast not strong character and he might well wilt in delivering General Staff message to Shah. General Zimmerman thinks Baharmast rather weak character.

7. I decided make endeavor see Prime Minister at once and asked Saleh Embassy Iranian Adviser seek appointment. Saleh learned from Mosadeq Secretary that Prime Minister in Palace with Shah. At Saleh's request Secretary left at once for Palace to tell Mosadeq I wished see him urgently. I called on Mosadeq at 1:15.

8. Mosadeq back in bed apparently suffering from severe headache. He received me in friendly though guarded manner. I told him I coming without awaiting instructions from Washington in view of what seem to me urgency of situation. Widespread rumors throughout city that Shah was leaving Iran at once because if he did not do so Prime Minister would issue proclamation denouncing him and family. As friend of Iran and as his personal friend I considered it my duty tell him that departure Shah just now would tend confirm these rumors. Support of Iran independence was basic policy re Iran. In my opinion and I sure my opinion represented that of US Government Shah's hasty departure in these circumstances would weaken security country and I therefore, had come to him in hope that he could take some last minute measure to prevail on Shah not to leave or at least to postpone his departure. Mosadeq replied Shah preferred to leave country. He did not request him do so and was not in position order him not to do so. At this very moment groups of persons including representatives British agents were in Palace trying persuade Shah not leave. Some of these people had entered Palace while he was telling Shah farewell and had made unnecessary scenes. Shah was receiving these people

freely and could decide for himself what to do. I asked Prime Minister why it was necessary for him to issue proclamation which clearly would be critical of Shah unless Shah left. Prime Minister replied he could not institute necessary reforms or obtain solution oil problem so long as court served as basis of operations of British agents who were trying stir up dissension in country. Unity was necessary if Iran was successfully to emerge from present crisis. I told Prime Minister had myself some knowledge of Shah's attitude and I convinced Shah not engaging in or countenancing participation of court in activities against interest Iran.

Prime Minister maintained that people around Shah were causing great injury to country. After some discussion it became clear it quite useless endeavor prevail on Prime Minister alter his attitude. I told Prime Minister regretted having troubled him personally at time when I knew he harassed with many worries. I had hoped discuss matter in preliminary way with Foreign Minister but had been unable to obtain appointment today. I had therefore called on Ala who clearly was not in position deny Shah was leaving almost immediately. My call on Prime Minister had been prompted by hope that latter would cooperate in preventing developments which might ultimately if not almost immediately have consequences unfavorable to Iran. Prime Minister said it would be better for me if I did not make call on Ala or anyone else connected with court at this critical time. . . . Prime Minister altered his attitude and in more friendly manner repeated that he was not insisting that Shah leave country. If Shah did not do so he had no choice other than to issue proclamation to Iran people. I said that in his political career he had undoubtedly on previous occasions found it possible to prevent differences from developing into open conflict which would be harmful to country. Was he sure that he had no alternative other than to issue proclamation critical of Shah and court unless Shah should leave country? Prime Minister said he had given this matter much thought and he considered that he was following proper course.

9. Before departing I gave Prime Minister note amending alternative text of original Compensation Agreement as suggested in London telegram 194, Feb. 27, repeated Department 4838.[2] We agreed that in case of press inquiries both he and I should merely state that during course my visit I had corrected minor omission in one of documents which I had handed him on February 20.

10. On my way to Prime Minister's residence I found all neigboring streets blocked with soldiers. On my departure 50 minutes later observed still more soldiers. Groups of persons in surly mood ap-

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[2] Not printed. (888.2553/2-2753)

parently ready for demonstrations of some kind were observed gathering in vicinity.[3]

HENDERSON

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[3] Jernegan and Richards informed Henderson on Feb. 28 that they concurred completely with Henderson's decision to take the measures, which he had reported in telegram 3449 from Tehran, to discourage the Shah's departure. (Telegram 2254; 788.11/2-2853)

No. 309

788.00/2-2853: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET NIACT TEHRAN, February 28, 1953—7 p. m.

3454. 1. Thousands of people demonstrated for Shah and blocking Kakh Street in vicinity royal palaces and Mosadeq residence. As I was leaving Mosadeq's house General Mohanna, Department Ministry Defense and General Afshartus entered his room. As I was leaving, compound jeep with Iranian soldiers swung out of curb towards gate compound. I have since been informed that this jeep crashed gate breaking it and served as signal for rioting. Guards resisted firing in air but throng coming up street from Shah's palace some 200 yards distant gradually overwhelmed guards and demonstrated against Mosadeq. Mosadeq in pajamas appeared on balcony in effort quiet throng. He was booed down. He then telephoned Ala demanding additional guards from palace charging that rioting was instigated by British agents of court. As rioting increased in violence Mosadeq escaped over rear wall in pajamas accompanied by Fatemi Foreign Minister. They entered auto and proceeded some unknown destination. 30 minutes later woman identified as Mosadeq's daughter-in-law and another woman climbed wall and left in waiting auto. About same time brigadier-general, probably chief police, scaled wall, commandeered Point Four jeep and went with it to police station.

2. At 5 p. m. thousands of people continued block vicinity royal palaces and Mosadeq's residence. Loud-speakers are calling on people if they are for Shah, now is time to demonstrate that fact.

3. I have talked with Ala by phone at 4:30 p. m. He confirmed massive throng still are in vicinity of palace. Shah in order quiet people appeared personally on balcony to inform them that he had decided not to go away at least for time being. My impression is

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[1] Also sent to London, Baghdad, Ankara, and Dhahran.

that demonstrations are organized. So far as I can ascertain, however, there is not as yet any definite plan, at least as far as court is concerned, for future. Unless Zahedi or some other figure with backing of military takes control of situation immediately either security likely deteriorate or Mosadeq from some new base with backing various elements including Nationalist Movement in Tehran and in country and possibly certain military groups will reassert his power. If Mosadeq successful as is quite possible, he will probably take extremely vindictive measures. Latest news is that certain groups now in street shouting "long live Shah and Mosadeq". This might be indication that Mosadeq backers trying to prevent pro-Shah supporters from demonstrating against Prime Minister. They may succeed thus in changing attitude of streets which originally were against Prime Minister. Pan Iranists also appearing on street. Tudehs not likely also fail to enter scene in opposition to Shah. Most of Tehran still undisturbed.

HENDERSON

No. 310

S/P-NSC files, lot 61 D 167, "Iran, US Policy Regarding the Present Situation, NSC 117, 136, 136/1"

Memorandum Prepared in the Office of National Estimates, Central Intelligence Agency, for the President

SECRET WASHINGTON, 1 March 1953.

Subject: The Iranian Situation

Ever since the assassination of General Razmara in March, 1951, and the subsequent impasse and diplomatic break with Britain over the oil negotiations, the Iranian situation has been slowly disintegrating. The result has been a steady decrease in the power and influence of the Western democracies and the building up of a situation where a Communist takeover is becoming more and more of a possibility. However, even the present crisis is likely to be unsatisfactorily compromised without a Communist Tudeh victory. . . . The events of the past 48 hours have brought a few surprises. The fanatical Moslem leader, Kashani, who is also President of the Majlis, has shown more power than expected both in influencing the Majlis and in quickly marshaling for mob action his fanatical followers. The institution of the Crown may have more popular backing than was expected.

Today the situation in Tehran remains tense and unresolved. Some street demonstrations have occurred today, but the curfew is still in effect and general order is apparently being preserved.

The principal opposing forces are represented on the one hand by Prime Minister Mossadeq and, on the other, by Mullah Kashani, with the Shah apparently being used by Kashani.

The Communist Tudeh Party may be expected to capitalize on, and increase, the tension in every possible way. The Tudeh party, which has always been anti-Shah, will probably back Mossadeq for the time being.

Significant elements of the Army will probably remain loyal to the Shah, but whether or not they can be forged into an effective weapon in shaping political developments depends on the Shah's determination to use them. So far this determination has not appeared. On the other hand, Mossadeq appears to retain control of the chain of command.

As between Mossadeq and Kashani, it appears that Mossadeq has still the greater strength although he has obviously lost some prestige in Parliament and among the people. Kashani's following, however, is better consolidated in the capital through a well organized "street machine," which Mossadeq does not possess.

The Prime Minister appeared before Parliament Saturday night at 8:30. After an initial friendly reception he was subjected to bitter criticism. Mossadeq reportedly asked Parliament for a vote of confidence, asserting that if the position of his government had not been clarified within 48 hours, he would appeal to the people. For the first time he failed to sway the Majlis by his oratory. After an initial indication that he intended to seek official "refuge" in Parliament, he returned to his heavily guarded home at 2:30 Sunday morning.

Despite the weakening of Mossadeq's position, he still appears to be able to recoup. His National Movement faction, some 28 deputies, has come up strongly in his favor; demonstrations have been staged in his support, and he has replaced Chief of Staff Baharmast (on the grounds that Baharmast failed to maintain public security) with General Riyahi.

If Mossadeq maintains control he will increase his efforts to remove or neutralize all opposition. His latent hostility toward the Shah is likely to increase. . . .

Mullah Kashani has been a key figure in promoting the pro-Shah street demonstrations. He has also led Parliament's attack on Mossadeq. If Mossadeq were to disappear, Kashani would be a serious contender for his position. Although personally not acceptable to the Shah, the latter would be inclined to appoint him prime minister if recommended by Parliament.

Kashani, . . . would bring a large degree of opportunism to the government. He has consistently followed a policy of extreme nationalism antagonistic to the US. If he succeeded Mossadeq, he would have a much narrower basis of support than Mossadeq enjoyed before the current crisis and would, therefore, be likely to resort to ruthlessness to destroy opposition. In his struggle to do so Tudeh influence and opportunities for gaining control would increase rapidly.

Retired General Zahedi, currently imprisoned by Mossadeq, also wishes to become Prime Minister, and his adherents are active in the Majlis. It is unlikely that he will succeed.

The present situation offers the Shah an opportunity which he has not as yet seized. His past record does not suggest that he will act.

No. 311

788.00/3-253: Telegram

The Secretary of State to the Embassy in Iran[1]

TOP SECRET NIACT WASHINGTON, March 2, 1953—7:38 p. m.

2266. While situation obviously still confused, your latest reports seem to us to bring out or confirm following points:

1. Immediate Tudeh objective is to eliminate Shah and for this purpose it is making common cause with Mosadeq. Presumably if Shah were eliminated Tudeh would then turn once again and work to eliminate Mosadeq, following which its chances of coming to power would be greatly increased.
2. Mosadeq is determined either to eliminate Shah or to reduce him to utter figurehead. Although he may not openly seek or welcome Tudeh support, he cannot disassociate himself from it and if he wins present struggle is likely to find himself unable vigorously to defend himself against Tudeh. This will be especially true if disorders take increasingly anti-western tone and Mosadeq victory is based on anti-western appeal to masses.
3. On other side, there appears to be substantial and relatively courageous opposition group both within and outside Majlis. We gather Army Chiefs and many civilians still loyal to Shah and would act if he gave them positive leadership or even if he merely acquiesced in move to install new government.
4. Shah, however, seems to be maintaining policy of complete inaction, with result that Mosadeq opponents, both civilian and military, are afraid to act positively.

On basis foregoing it seems likely Mosadeq will retain power and that this will mean early disappearance of Shah from Iranian political scene, rapid deterioration in relations between Iran and West and greatly increased possibilities of communist takeover. Would appreciate your comments on this analysis.

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[1] Drafted and signed by Jernegan; cleared in draft with the Secretary of State, Under Secretary of State, Deputy Under Secretary of State, and Nitze.

It is of course quite possible that we can do nothing in this situation and we shall be guided by your judgment in this regard.[2] . . .

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DULLES

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[2] Henderson responded in telegram 3543 from Tehran, Mar. 4, that there was no evidence yet that Mosadeq had made arrangements with the Tudeh, but he was capable of doing so in order to retain power. Henderson added that no reconciliation between Mosadeq and the Shah appeared possible except on terms of the latter's capitulation. (888.00/3–453)

No. 312

Eisenhower Library, Eisenhower papers, Whitman file

Memorandum of Discussion at the 135th Meeting of the National Security Council, Washington, March 4, 1953[1]

TOP SECRET EYES ONLY

Present at the 135th meeting of the Council were the President of the United States, presiding, the Vice President of the United States, the Secretary of State, the Secretary of Defense, and the Director for Mutual Security. Also present were the Secretary of the Treasury, the Director, Bureau of the Budget, General Vandenberg for the Chairman, Joint Chiefs of Staff, the Director of Central Intelligence, the Administrative Assistant to the President for National Security Matters, the Special Assistant to the President for Cold War Operations, the Military Liaison Officer, the Executive Secretary, NSC, and the Deputy Executive Secretary, NSC.

There follows a general account of the main positions taken and the chief points made at this meeting.

[Here follows discussion of item 1 concerning the question of Stalin's illness and the United States Government's program for exploiting psychologically Stalin's passing.]

2. Developments in Iran Affecting U.S. Security (NSC 136/1)[2]

When the Council turned to this item on the agenda Mr. Cutler sketched briefly current United States policy on Iran as set forth in NSC 136/1. He further informed the Council that the Senior NSC Staff had discussed this policy and the situation in Iran at its meeting on the previous Monday.[3] At that time the Staff had requested that the Director of Central Intelligence and the Secretaries of State and Defense be prepared to answer certain questions and to set forth the situation when the Council met on Wednesday.

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[1] Drafted by Gleason, on Mar. 5.

[2] Document 240.

Mr. Dulles then proceeded to brief the Council on the developments of the past two or three days in Iran. Mr. Dulles said that there was little doubt that the Shah had once more missed an opportunity to take control of the situation, and that the present prospects were that Mossadegh would remain in control for the immediate future though with diminished power and prestige. It could be predicted that he would set about destroying what remained of the Shah's position and would attempt also to "get" Kashani. It was also explained that, for reasons of its own, the Tudeh Party was at the moment supporting Mossadegh. Nevertheless, the true Communist position, said Mr. Dulles, could be deduced from a broadcast of the secret Communist radio in northern Iran. Its report on recent events was violently anti-Shah, but, unlike the position taken by the Tudeh Party officially, this radio also attacked Mossadegh as a vile servant of the Shah and warned him that if he were to survive he must join with the people of Iran and act with and for them against the Shah.

The probable consequences of the events of the last few days, concluded Mr. Dulles, would be a dictatorship in Iran under Mossadegh. As long as the latter lives there was but little danger, but if he were to be assassinated or otherwise to disappear from power, a political vacuum would occur in Iran and the Communists might easily take over. The consequences of such a take-over were then outlined in all their seriousness by Mr. Dulles. Not only would the free world be deprived of the enormous assets represented by Iranian oil production and reserves, but the Russians would secure these assets and thus henceforth be free of any anxiety about their petroleum situation. Worse still, Mr. Dulles pointed out, if Iran succumbed to the Communists there was little doubt that in short order the other areas of the Middle East, with some 60% of the world's oil reserves, would fall into Communist control.

The President then asked the members of the Council what they could suggest as to what the United States might do now to avert the crisis. Was there any feasible course of action to save the situation in Iran?

In reply, Secretary Dulles said that for a long time now he had been unable to perceive any serious obstacle to the loss of Iran to the free world if the Soviets were really determined to take it. We do not have sufficient troops to put into the area in order to prevent a Communist take-over, and the Soviets had played their game in Iran very cleverly and with a good sense of timing. Nevertheless, continued Secretary Dulles, he believed it was possible to gain time if we followed certain courses of action. The real problem, it seemed to him, was what to do with the time thus gained, in view of the apparent hopelessness of Iran's ultimate fate. Perhaps, he suggested, the Joint Chiefs of Staff might provide some answer as to what we could do with the time we could save.

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[3] The Record of Meeting of the Senior NSC Staff on Mar. 2 is not printed. (S/P-NSC files, lot 62 D 1, "1953—Record of Planning Board Meetings NSC files")

In commencing his outline of these courses of action, Secretary Dulles noted that all three courses were hazardous and all of them subject to change in case Mossadegh was assassinated. The first course of action suggested by Secretary Dulles was to recall Ambassador Henderson before he was dismissed by Mossadegh. . . . the Ambassador's influence with Mossadegh was probably now hopelessly impaired, and it might therefore be best to recall him before he was kicked out.

The second course of action proposed by the Secretary of State was for the United States to disassociate itself, regarding Iran, from the British in an effort to regain popularity on the merits of a policy of our own. This subject, he added, he desired to discuss with the President and Foreign Secretary Eden.[4] But, he said, it was known that our unpopularity in Iran is largely a derivation of British unpopularity and our previous association in the minds of Iranians with unpopular British policies. The trouble with such a course of action as this was whether we should not lose more by going it alone, in the face of British opposition in many other areas of the world, than we should gain in Iran itself.

At this point the President interrupted Secretary Dulles' outline to state his firm belief that in such countries as Syria and Iraq, America was hated even more than Britain, because of the policy which we had been pursuing toward Israel. Had anyone ever thought, continued the President, of saying to these other Middle Eastern states that they ought to make a coalition with us as a means of withstanding an assault by the Russians on them across the mountain ranges which separated them from the Soviets?

Secretary Dulles then asked if, before answering the President's question, he could go on to make his third and last point on courses of action to gain time in Iran.

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[4] British Foreign Secretary Eden and Chancellor of the Exchequer R. A. Butler were scheduled to arrive in Washington on Mar. 4 for a series of political and economic talks with their American counterparts that continued through Mar. 7. For a summary of the discussions that pertained to Iran, see Document 314.

The third course, he said, was to go ahead and purchase oil from the National Iranian Oil Company, supply that company with the technicians it needed, and furthermore to give material support to the Mossadegh regime. This completed, said Secretary Dulles, the courses of action which seemed open to us to gain time in the emergency. We were not obliged to take all three of the courses he outlined, but one or more of them seemed to him the best way to gain time. Unless, however, the Defense people really believed that it was desirable to gain time and had specific reasons for this view, Secretary Dulles again expressed doubts as to the genuine desirability of pursuing any of these courses of action except, perhaps, to recall Ambassador Henderson. The reason for his doubt, he said, was that the losses we might anticipate in other parts of the world were likely to overweigh any gain in Iran.

The President said he understood why Secretary Dulles hesitated about these courses of action, but thought it possible that the British themselves might be persuaded by the course of events lately to agree to an independent policy vis-à-vis Iran by the United States.

Mr. Stassen inquired if we had not just been given an important reason to gain time in Iran. In view of Stalin's illness and probable death, was it not absolutely requisite that the United States assume a firm and steady stand everywhere throughout the world? Soviet policy was bound to be somewhat confused and hesitant in the immediate future, and it was incumbent upon the United States to take advantage of this fact.

Secretary Dulles replied that he believed that Mossadegh might well last another year or two, and that he had not meant to suggest that the United States should formally disengage itself from concern with Iran.

Secretary Wilson inquired whether we were not in fact in partnership with the British in Iran, and whether the British were not the senior partner.

Secretary Dulles answered that this had been the case until fairly lately, but that the British had now been thrown out.

The President added that we do have to respect the enormous investment which the British had in Iran, and that we must moreover recognize that their latest proposals, unlike earlier ones to the Iranians, had been wholly reasonable. It was certainly possible, he added, for the United States to do what it thought necessary to do in Iran, but we certainly don't want a break with the British.

With this statement Secretary Wilson expressed strong agreement.

In commenting on the President's statement, Secretary Dulles pointed out his fear that it was now too late to hope that any reasonable concession by the British to the Iranians could result in a settlement. The only thing which would produce a settlement would be a complete British capitulation.

Secretary Humphrey inquired whether he was to understand that Secretary Dulles was already convinced that Russia would ultimately secure Iran in any event, or, in other words, that we are going to lose that country.

Secretary Dulles replied in the affirmative, and Mr. Cutler pointed out that this, of course, meant that with the loss of Iran we would lose the neighboring countries of the Middle East and that the loss would be terribly serious.

The President commented that we could not move forces of our own into Iran, but this did not imply to him the necessity of sacrificing the other Middle Eastern states, because it was possible to get United States troops into some of these countries. The difficulty in trying to do this in Iran was the probability that an attempt on our part to do so would result in Soviet invocation of its treaty of friendship and non-aggression with Iran.[5] We would then find ourselves at war with Russia.

Mr. Cutler again pleaded the wisdom of American policy in Iran independent of the British, and suggested that it might even be wise for the United States to buy out the British oil company.

The President replied that he had long believed that this should be done, but he could see no way of convincing Congress that it was the part of wisdom for the United States Government or any American oil company to buy the bankrupt Anglo-Iranian.

Mr. Stassen noted that it might well be possible for the United States to get its money back once Iranian oil began to flow again.

But the President observed that at the moment at least there was no market for Iranian oil, and that to obtain one would require cutbacks in production in other oil-producing areas.

Reverting to the President's worries about the attitude of Congress, Mr. Cutler inquired how Congress would like it if the United States stood idly by and let Iran fall into the hands of the Soviet Union.

It was generally agreed that Congress would take a poor view of this eventuality.

At this point, Mr. Jackson said he believed that another possibility existed for saving the situation in Iran. He thought that if the

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[5] The Soviet Union and Iran had concluded this treaty on Feb. 26, 1921. The provision to which the President was referring was Article VI. It states that if a third party attempted armed intervention in Iran or tried to use Iranian territory as a base against the Soviet Union, and if the Iranian Government was unable to stop this menace after being asked once to do so by the Soviet Government, the Soviets had the right to send troops into Iran to conduct military operations necessary to the defense of the Soviet Union.

United States could manage to secure a peace between Egypt and Israel, and that if the Roman Catholic Church, as seemed likely, would agree to the internationalization of the Holy Places in Jerusalem, and finally, if the British could be persuaded to go along, the Arab powers would fall in line and the United States would be able to create a position of reasonable strength in the whole Middle East area, including Iran.

The President said that Mr. Jackson was absolutely right, but, unhappily, what he proposed would take a long time, and we are in the midst of a crisis. "I'd pay a lot", said the President, "for this peace between Egypt and Israel."

Secretary Dulles added that this case was on the agenda for his forthcoming talks with Anthony Eden.

The President then reverted to Secretary Dulles' third course of action, which involved giving material and financial support to Mossadegh.

That, said Secretary Dulles, would certainly give us time, but he would like to hear now from the Joint Chiefs of Staff as to the value of gaining time.

General Vandenberg responded by a statement that the only real reason for gaining time was to get the Middle East Defense Organization started.[6] If the MEDO begins to function it might very well provide the stability that we so desperately needed in the Middle East. General Vandenberg, however, confirmed the President's opinion that it would take a very long time to get US or UN troops in position in Iran. . . .

General Vandenberg warned, however, that there was now more serious question as to the loyalty of the Iranian armed forces to the Shah. The latter had had several opportunities to assure himself of the loyalty of his armed forces, but, as in other cases, had lost his opportunity. There was now a new Chief of Staff of the Army who was one of Mossadegh's own choice.

Secretary Humphrey expressed himself as shocked to think that we were contemplating the loss of Iran in this fashion, and Mr. Cutler again inquired of the Secretary of State whether it would not be possible, in the forthcoming conversations with the British, to induce them to waive their claims and let the United States proceed to negotiate unilaterally with Iran. The British had lost their investment in Iran in any case, and a unilateral course of action by the United States was about the only thing which had not been tried.

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[6] For documentation regarding the interest of the United States in developing a regional security organization in the Middle East, see vol. IX, Part 1, pp. 1 ff.

The President was impressed with this argument, and informed Secretary Dulles that he ought to try to work out a position with the British that would save their face but actually give the United States control of the situation and freedom to act along the lines suggested by Mr. Cutler.

Secretary Dulles answered that he had already talked about this to Mr. Eden in the course of his recent visit to London.[7] He had found that the British did not anticipate any real crisis in Iran for a long time to come.

Secretary Humphrey interposed with the statement that the British always said that you could perfectly well take your time, and cited instances where their estimate had been wrong.

The President said that the latest illustration of their wrongness was in Egypt.

The Vice President said that there was yet another factor to be considered in discussing this problem with Mr. Eden. It was the Vice President's opinion that greater rather than less hostility was to be expected from the Russians after Stalin's death. It was quite likely, therefore, that they would increase their pressure in Iran to secure its control as rapidly as possible by a *coup d' ètat*. Such a course of action might constitute the miscalculation, which we all dreaded which would cause the beginning of World War III. Could not the British be made to see this dangerous potentiality? We, not the Russians, insisted the Vice President, must make the next move.

Secretary Dulles complained that we are constantly slowed up by the British, French, and other of our allies, in actions which we feel it is vital to take in many parts of the world. They slow us up, we can't move in time to avert the consequences of our tardiness. Perhaps something like Supreme War Council is the only solution for this situation. At any rate, some mechanism should be found which would enable us to act in time at the critical moment.

The Vice President rejoined that if the next move on the world scene could be ours and not Russia's the whole situation in the world might change for the better.

The President said that if a real Soviet move against Iran actually comes, we shall have to face at this council table the question of going to full mobilization. If we did not move at time and in that eventuality, he feared that the United States would descend to the status of a second-rate power. "If", said the President, "I had $500,000,000 of money to spend in secret, I would get $100,000,000 of it to Iran right now."

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[7] See footnotes 5 and 7, Document 295.

The President then inquired of Secretary Dulles how soon it would be possible for the President and Secretary Dulles to sit down with Mr. Eden. Would it be possible this evening? We must find out immediately how the British really feel—whether they are ready to concede to us on this situation, or whether they are going to be stiff-necked. The question of unilateral action by the United States was clearly posed.

Secretary Humphrey interjected several times his conviction that this was the propitious moment to strike a bargain with the British, who were in need of assistance from us, and Mr. Stassen added that we ought also to try to indicate that it is not an objective of United States policy to liquidate the British Empire. If the British and, for that matter, the French could be induced to believe this, they might prove more amenable to leadership by the Secretary of State.

Secretary Wilson said that there seemed to him to be two great things in the world to which the United States did not have an answer. One was the obvious collapse of colonialism; the other was Communism's new tactics in exploiting nationalism and colonialism for its own purposes. In the old days, when dictatorships changed it was usually a matter of one faction of the right against another, and we had only to wait until the situation subsided. Nowadays, however, when a dictatorship of the right was replaced by a dictatorship of the left, a state would presently slide into Communism and was irrevocably lost to us.

Mr. Stassen had already stated, in reply to the President's wish that he had money, that the Mutual Security Administration had available funds.

The President therefore turned to Mr. Stassen and asked him how much he could actually dig up.

Mr. Stassen replied that he could probably find as much as the situation required—five million, ten million, forty million—if Secretary Dulles decided that he could make headway by the use of such funds.

Apropos of a statement by the President, that he also wished that for a change he could read about mobs in these Middle Eastern states rioting and waving American flags, Mr. Jackson said that if the President wanted the mobs he was sure he could produce them.

The President said in any case it was a matter of great distress to him that we seemed unable to get some of the people in these down-trodden countries to like us instead of hating us.

At this point in the discussion Mr. Cutler interposed to read a four-point record of possible action by the Council on this particular item, which included an attempt to explore with the British the possibility of unilateral United States action in Iran.

The President replied that it certainly seemed to him about time for the British to allow us to try our hand.

Mr. Jackson then said he had another point which he felt would contribute to an improvement of our position in the Middle East and about which he felt it was possible to do something. This was American action to remove the festering sore in the Middle East represented by the 800,000 Arab displaced persons in Israel.

Secretary Dulles agreed that this was indeed a festering sore, but pointed out that the Arab countries themselves were unwilling to absorb these 800,000 unfortunate people, since to do so would deprive them of a bargaining point in their dealings with the Israelis. Accordingly, said Secretary Dulles, he did not see what could be done about them.

Mr. Jackson replied that it would certainly be possible to resettle 200,000 of these refugees, and that all 800,000 could at least be fed.

The President added that it was not enough to feed them, but that he would be awfully glad if we could get some one of the Arab countries to take these people if we would pay a subsidy for each head.

After General Vandenberg had informed the Council that there was one point relevant to the military aspects of the Iranian problem, namely, the existence of a fair-sized British force in Iraq, Mr. Stassen inquired whether it was indeed the President's view that some funds should be expended at once in Iran if the Secretary of State agreed.

The President replied that of course this was a gamble, but if upon examination it seemed a good gamble, he was prepared to take it.

The National Security Council:[6]

a. Discussed the subject in the light of an oral briefing by the Director of Central Intelligence.

b. Agreed that the following possible courses of action should be explored in anticipation of further Council action at the next regular or special meeting:

(1) Persuading the British to permit the United States to put the Iranian oil industry in operation, without prejudice to an ultimate settlement of the Anglo-Iranian controversy.

(2) The military feasibility of holding a line through the Zagros Mountain range.

(3) Replacement of Ambassador Henderson.

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[6] Paragraphs a-b constitute NSC Action No. 729. (S/S-NSC (Miscellaneous) files, lot 66 D 95, "Record of Actions by the NSC, 1953")

(4) Provision of limited economic aid to strengthen Mossadegh's position.

[Here follows discussion of basic national security policies.]

S. EVERETT GLEASON

No. 313

788.00/3-653: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET PRIORITY TEHRAN, March 6, 1953—5 p. m.

3576. 1. Arrests or removal from key positions of officers armed forces considered as more loyal to Shah than to Prime Minister are sharpening dissatisfaction in military circles with course events and at same time are rendering it progressively more difficult for this dissatisfaction to be expressed through direct action. Nevertheless possibility and advisability of attempting military *coup d' état* continues be surreptitiously discussed. Whether these discussions will result in recourse violence or merely in further arrests not fully clear. Tendency of most educated Iranians to prefer talk to action combined with incapacity organize causes us to have considerable doubt ability groups loyal to Shah stage successful coup at this time.

2. According Palace sources Shah has not totally abandoned struggle despite statements ascribed to him to effect he supporting Mosadeq. These sources insist he has sent secret messages to opposition in Majlis and to other civilian and military groups loyal to him asking for continued support and indicating that he has been passive thus far merely because of his belief that he not yet in position openly to resist Mosadeq. These sources say Shah still has hope Mosadeq government will be overthrown by peaceful means in not distant future.

3. Difficult for us believe Shah really would have courage or resolution to take part in movement to effect either by force or peacefully downfall Mosadeq government. He would undoubtedly be frightened at thought of military coup being attempted in his name and if given opportunity would probably try discourage it. Miscarriage of attempted coup would be likely to complete ruin of Shah and dynasty, to result in increase of arrests of persons suspect-

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[1] Also sent to London.

ed of pro-British sympathies, and to strengthen forces antipathetic to west.

HENDERSON

No. 314

788.00/3-753: Telegram

The Secretary of State to the Embassy in the United Kingdom[1]

TOP SECRET WASHINGTON, March 7, 1953—3:58 p. m.

5959. Secy in Mar 6 mtg with Eden[2] gave following evaluation present Iranian political situation. While picture still obscure authority Shah has probably largely and permanently disappeared. Mosadeq will probably come through present situation remaining in power. As a result, however, loss authority and prestige by Shah and Army risk of Iran going Communist greater and possibility of transition to an orderly govt when Mosadeq does fall diminished. End evaluation.

Secy indicated if Mosadeq rejects present oil proposal we do not intend to make another believing under this contingency oil question shld be held in suspense. Under such situation large scale US financing Mosadeq Govt not contemplated. Mosadeq shld not receive a premium for acting as he has. There shld be no large US purchases oil. However, we shld be tolerant of minor measures sufficient to keep Mosadeq barely afloat and thus attempt avoid disastrous possibility of Communists replacing him. Illustrative minor steps might include such items as arranging small sales of oil or letting Jones technicians go to Iran.[3]

Eden made strongest kind of plea that we not permit Jones technicians go stating effect thereof in UK would be very serious. He made plea that we render assistance in ways not directly related to oil. Secy felt certain aspects problem wld have to be played by ear as situation develops but stressed importance attempting prevent a complete collapse and Communist takeover Iran.

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[1] Also sent to Tehran. Drafted by Raynor, approved by Jernegan, and cleared with Bonbright.

[2] See footnote 4, Document 312.

[3] According to a memorandum to the Secretary of State from Byroade, Mar. 4, Alton Jones, President of Cities Service, when leaving Iran in late summer of 1952, indicated that his company might supply technicians to the Iranian oil industry if requested. Since that time the Iranians pressed him to furnish these technicians, but Jones refused because he thought it would cause the administration embarrassment. The British also felt that the dispatch of these people would have adverse effects on British public opinion. Despite this fact, however, Byroade recommended that Secretary of State Dulles inform Foreign Secretary Eden that the U.S. Government could no longer discourage Jones from sending technicians to Iran. (888.2553/3-453)

In second mtg at White House Secy expressed view situation so dangerous and unpredictable might be necessary act promptly and US wld have to have considerable measure discretion as to what it did. Eden repeated plea that US measures adopted to "maintain a state of friendly stability in Iran" should be unrelated any purchases of oil or activation of the refinery. Eden reemphasized that bitter resentment wld be aroused in UK by presence American technicians in Abadan. This matter left unsettled but with US freedom of action reserved.[4]

Dulles

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[4] Ambassador Henderson generally agreed with the Secretary's evaluation of the Iranian political situation and the Secretary's outline of future American policy as he expressed it to Foreign Secretary Eden. Henderson believed, however, that the Shah had not completely disappeared, that he was still struggling for survival, and that he might emerge from the present crisis with a certain vestige of influence. (Telegram 3597, Mar. 8; 788.00/3-853)

No. 315

888.2553/3-953: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET NIACT TEHRAN, March 9, 1953—4 p. m.

3605. Eyes only Secretary and Byroade.

1. At Prime Minister's request I called on him 11 o'clock this morning (see Embtel 3604[2] stating Prime Minister has subsequently telephoned to say our whole conversation should be considered as not taking place pending submission matter to Cabinet of Ministers). He said he had asked see me primarily in order to discuss possibility that British might be willing to state immediately amount compensation they intended ask of Court so that he and people Iran would be able evaluate extent of risk Iran would be incurring if it should agree to submission question compensation to International Court of Justice. Iran would have been willing simultaneously to state amount it was claiming from AIOC. Subsequent to his request for me to call he had learned of State Department

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[1] Transmitted in two sections; also sent to London eyes only for Ambassador Aldrich.

[2] Not printed. (888.2553/3-953)

communiqué of March 7[3] containing statement Eden to effect that British Government had decided stand on its proposals of February 20. In view of Eden's statement and of Department's comments re those proposals it was now clear nothing could be gained by continuance conversations. Since Iran could not accept these proposals and British stood firmly on them, deadlock had developed and conversations should be regarded as terminated. He desired make proposals public as soon as convenient but wished publish with them certain queries addressed to United States Government which he would incorporate in note to me this afternoon together with United States' reply.

2. Prime Minister outlined his proposed note. After indicating that as result of Eden's statement it had become clear conversations had broken down, he desired to obtain answers from United States Government to following questions. In absence agreement re compensation would United States Government in order assist Iran in overcoming its financial difficulties be prepared: (a) to buy Iranian oil over period years in substantial quantities at prices to be agreed upon; (b) to encourage private United States firms (1) to purchase Iranian oil and (2) otherwise assist Iran in production and export of its oil; (c) to extend to Iran immediately loan to be repaid subsequently in form of oil.

3. Prime Minister said that he regretted being compelled ask such pointed questions but he and Iranian people must know what if any help could be expected from United States before deciding course action to be followed.

4. Prime Minister originally suggested that proposals and exchange of notes be published on March 11 simultaneously in all three capitals. I told him it might be difficult to obtain reply to his inquiries sufficiently early enable publication on that day. He suggested therefore that time of publication be arranged after reply had been received.

5. Prime Minister stated that he intended when making public proposals and exchange of notes to give his reasons for rejection of proposals. He would also state that he had suggested during course negotiations that attempt be made to reach settlement through agreement between Iran and United Kingdom according to which Iran would pay compensations by turning over to AIOC 25 percent of proceeds from exports of oil for period of years to be agreed upon by two Governments, and that British had never replied to this

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[3] The Department cabled those portions of the communiqué pertinent to Iran to the Embassy in Tehran in telegram 2336. In summary, the communiqué stated that the United States considered the British proposals of Feb. 20 to be reasonable and fair, and that the United States agreed with the British position as expressed by Eden. (611.41/3–753)

suggestion. I told Prime Minister that if he considered it necessary refer to his suggestion he should also state that I had told him when he made it that I not in position discuss any kind solution compensation problem other than one providing for submission that problem to International Court of Justice or some impartial arbitral board. Prime Minister said fact was he had made that suggestion and had received no reply from British and he would so state. He said he still willing to seek for solution compensation on this basis.

6. During our two-hour conversation we touched on various matters which I shall not try report since much of what we said was rehash of previous conversations re oil already reported. At beginning our conversation Prime Minister was somewhat formal and exhibited certain amount resentment at issuance of communiqué. British and Americans should not have issued statement this kind without advance notice to him. I pointed out statement made by Department of State not by British and Americans; that statement merely outlined Eden's position and views United States Government re proposals February 20. During last two weeks Prime Minister's oil advisers had been systematically issuing statements to Iran press which seemed to be giving erroneous impression re substance proposals of February 20. Views United States Government as expressed in communiqué might in long run be helpful if they would assist Iranian public in understanding kind of proposals which in United States opinion would be fair and reasonable and would make it clear that proposals February 20 were of kind which United States could approve. Prime Minister said regardless form of communiqué it was nevertheless issued for purpose of exercising pressure on Government of Iran to accept proposal. United States Government should understand that present Government of Iran did not bow to pressure.

7. When Prime Minister informed me that he considered conversations terminated I expressed regret. I said that in my opinion United Kingdom had made important concessions particularly during course these conversations. I hoped he recognized this fact. Prime Minister replied negative. Proposals no more advantageous to Iran than those advanced by British in 1951. Although British were not now demanding participation in management Iran oil industry or monopoly rights on purchasing and distribution Iran oil, they were insisting that Iran give International Court of Justice right to put Iran under bondage for at least twenty years. If Iranians should become slaves bound to turn over their oil products to AIOC they would be in no better position than they would be if British were back in country controlling Iran's oil industry and

interfering in Irans internal affairs. My efforts to persuade him that he was assuming extreme position had no apparent effect.

8. Prime Minister at one point stated he regretted see new United States administration permit British to formulate United States policies re Iran. He maintained that British at no time desired oil settlement be effected with aid United States, that one of British objectives this area was "to get Americans out of Iran and whole Middle East"; that British were hoping ultimately to come to agreement with Soviet Union for division Middle East into spheres influence. I endeavored unsuccessfully to convince him that his ideas re United States and British policies in this area were mistaken; that United States policy was based on certain principles which it could not abandon for sake of expediency; and that British were not so stupid as to imagine that Soviet Union's ambitions re Middle East and Iran could be curbed by policies of appeasement providing for spheres of influence.

9. During latter portion our conversation Prime Minister assumed more friendly attitude and spent considerable time in pointing out why United States could not afford not to help Iran in present critical internal situation.

10. Regardless whether after his talk with Cabinet this afternoon Prime Minister decides to put to US questions outlined in paragraph 2, these questions are likely to be raised in some form in near future and it might be convenient if answers to them could be prepared in advance.[4]

HENDERSON

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[4] The Department informed Secretary Dulles of the gist of this telegram in Tedul 2, Mar. 9, sent to him at the U.S. Mission to the United Nations in New York, and told him that the Department was preparing answers to the questions Mosadeq asked during this meeting. (888.2553/3-953)

No. 316

788.00/3-1053: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET PRIORITY TEHRAN, March 10, 1953—1 p. m.

3627. 1. Department will have noted we have not as yet presented our ideas as to why Mosadeq should have chosen this particular time to bring to issue his long smouldering differences with Shah. Our silence has been due in part our own lack assurance as to what answer this question should be. Mosadeq so much creature his own emotion, prejudices and suspicions that attempts to analyze motives his various actions in light ordinary rules logic or on basis of reason might well lead one astray. It is therefore with diffidence we seek explanations for his present attitude regarding Shah.

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[1] Transmitted in two sections; also sent to London and pouched to Ankara, Baghdad, Cairo, and Dhahran.

2. Altho at times he has cooperated on temporary basis with Shah and has insisted that in his opinion institution Shah necessary for Iran stability he nevertheless like many members of former ruling Kajar family has always had secret contempt in his heart for Shah whom he regards as weakling son of upstart tyrannical imposter. His toleration thus far of Shah prompted by political opportunism. Little doubt that he has been consistently endeavoring undermine authority and prestige of Shah. We do not believe that Mosadeq thus far has intention restoring Kajar dynasty or setting up another Shah. He would like however completely crush present dynasty Tekhat if Shah is not actually dethroned he will be Shah in name only and no member Shah's family can succeed him. Mosadeq would probably prefer Iran become some kind republic under his dictatorial control altho his ideas regarding future in this respect may not have been completely formulated.

3. Last summer following Qavam episode Mosadeq made temporary peace on his own terms with Shah. Shah was to support him and he would not interfere with Shah's authority. For some time Mosadeq has considered this arrangement advantageous to himself. Under it he had hoped obtain complete control over all Iran armed forces including police and then eventually to divest Shah of all political power and economic independence. It had become gradually clear to him however that despite his endeavors to win support of secret forces and to undermine prestige Shah, officers those forces continued to look to Shah despite latters weakness as head of state and as their chief. He also conceived of court as rallying point for various elements (exclusive of Commies and Fellow Travelers) who distrusted his judgment in international and internal affairs and who were opposed to his assumption of full dictatorial powers.

4. So long as opposition using court as rallying point was composed primarily of those whom his national movement had eliminated or was threatening to eliminate from public life and those who considered that it was in Iran's interest to throw in its lot with West politically or at least morally, he did not consider it expedient openly to break with court. When however nationalist movement politicians such as Kashani and Maki who were inherently anti-foreign and who had hitherto supported him also began to turn towards court Mosadeq could no longer contain his hatred and contempt for court. Opposition polarized around court was be-

coming too strong. He began to feel majority members Majlis were giving him lip service loyalty in view his tremendous personal prestige among political conscious Irans, and that at opportune moment under banner constitutionality and loyalty to Shah would turn against him. One of his most effective weapons in combatting opposition had been widespread belief that he would be able with united Iran behind him to solve oil problem on basis completely favorable to Iran. It was also becoming clear to him that either acceptance or rejection British proposals for compensation might bring about his downfall in present political situation. Hard-kernel national movement closest to him was opposed to acceptance British proposals. He must go along with them. It would be safer however to demolish court, thus paralyzing what he considered center of opposition, before announcing breakdown oil negotiations.

5. Mosadeq's resentment against court was deepened by recent Bakhtiar disturbance. He convinced that Bakhtiars in view their blood relationship to Queen were working with Shah and also receiving encouragement and aid from British across border in Iraq. His suspicions of ties between court and British were strengthened.

6. Temperament Mosadeq can not be ignored in assessing his present attitude re court. His career has been based on negative activities and slogans. As Prime Minister he has not been able accomplish anything of constructive character. When frustrated he searches for some new opponent to blame and destroy. He has thrown out British; emasculated Majlis; eliminated Senate; forced all well-known politicians out of public life; deposed all prominent civilian and military officials; sent various members Royal Family into exile, etc. Now he places blame his failures on court and takes measures against Shah. He may later blame rump Majlis and take steps get rid of it. If coop of kind desired not forthcoming he may give Americans same treatment as that given British.

7. Plan of action against Shah has not gone as anticipated. Behind smoke screen confusing conciliatory announcements opposition still defensively stubborn. Even apparently passive Shah appears to be holding his ground. Despite his undoubted feelings of angry frustration and his control of security forces and communications Mosadeq is showing unprecedented hesitation in carrying through project on which he had already embarked.

HENDERSON

No. 317

888.2553/3-1153: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET NIACT TEHRAN, March 11, 1953—1 p. m.

3644. Eyes only Secretary and Byroade.

1. Mosadeq asked Saleh, my Iranian adviser, early this morning to stop by on way to Embassy. Prime Minister told Saleh to deliver following message to me:

Prime Minister had changed his mind (see Embtel 3605, March 9; repeated London 1194) re publishing proposals of February 20 and re despatching letter US Government inquiring attitude US re giving financial assistance to and purchasing oil from Iran. Prime Minister had decided that no useful purpose would be served in publishing proposals which were after all merely part of negotiations and which were handed to him informally not covered by any intergovernmental correspondence. Prime Minister planned within next few days instead of publishing proposals to submit report to Majlis outlining general tenor of conversations and summarizing kind of counter proposals which he would have made if British had not indicated that they did not desire any counter proposals. Prime Minister planned to let me see in advance draft of his proposed report. Reason for Prime Minister's decision not to send note to US Government inquiring re possible US aid was that he was afraid if answers would be in negative relations between US and Iran would be seriously impaired. He wished maintain good relations with US. He would therefore not send note unless he could receive some intimation from Ambassador that US was willing help Iran and his note would contain questions which could be answered in affirmative.

2. Saleh tells me that from certain remarks which Prime Minister made during their brief conversation he received impression that one of Prime Minister's reasons for desiring to incorporate in his proposed report kind of counter proposals which he had planned to make was to ascertain what Iran reaction would be to such counter proposals. Although Prime Minister maintained that his report would be fair Saleh somewhat discouraged by fact that in his presence Prime Minister requested Sanjabi over telephone to begin preparing draft of report. Sanjabi one of Mosadeq's oil advisers who is believed to be against any kind of settlement which could possibly be accepted by British.

3. If Prime Minister shows me draft report or sends it to me for my comments it is my intention to comment rather spiritedly in case in my opinion it gives distorted account of proposals and nego-

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[1] Also sent to London eyes only for Ambassador Aldrich.

tiations. I plan also to tell him that although I may make certain suggestions I cannot take responsibility for attitude which US and UK Governments may take towards his report. Proposals were drafted with exceeding care by experts of two governments and summary of them might in opinion those experts not present true picture. Unless Mosadeq's description of proposals and outline of tenor of conversations are approved in advance by US and UK Government those Governments may find it necessary in order satisfy public opinion in US and UK to make public their own summaries of proposals or to publish complete texts together with their own comments re conversations.

4. If Prime Minister mentions to me again subject US attitude re financial aid and purchase by US Government or US firms of Iran oil I might tell him that I have no definite instructions. I doubt however, that US Government would be prepared in present circumstances to extend financial aid to Government of Iran since extension such aid, particularly at time when Iran is rejecting what seems to be fair and reasonable settlement of compensation problem, would probably give rise to considerable criticism on ground that if Iran would agree to proposals made to it, Iran would be in position realize considerable revenues from its oil industry. Similarly, US public would probably be extremely critical if US Government should undertake to purchase Iran oil produced from property and with facilities developed by AIOC and seized without arrangements being made for compensation by Government Iran. With regard to purchase by US firms of Iran oil I might state that US Government had already issued announcement setting forth its attitude and I doubted that there would be any change. I might add that I had already made appropriate inquiries US Government and would be glad to let him know informally if answer to my inquiry should contain any additional information.[2]

5. Would be grateful for early instructions.

HENDERSON

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[2] The Embassy in London reported on Mar. 11 that it had furnished the Foreign Office paragraphs 1–3 of telegram 3644 from Tehran. (Telegram 5042; 888.2553/3-1153)

Byroade provided Secretary Dulles with an advance copy of telegram 3644 on Mar. 11, as soon as NEA had received it, because Byroade thought its contents would be of immediate use to the Secretary in the National Security Council meeting scheduled for later that day. (888.2553/3-1153)

No. 318

Eisenhower Library, Eisenhower papers, Whitman file

Memorandum of Discussion at the 136th Meeting of the National Security Council, Washington, March 11, 1953[1]

TOP SECRET EYES ONLY

Present at the 136th meeting of the Council were the President of the United States, presiding; the Vice President of the United States; the Secretary of State; the Secretary of Defense; and the Director for Mutual Security. Also present were the Secretary of the Treasury; the Director, Bureau of the Budget; the Chairman, Atomic Energy Commission (for Item 1 only); General Collins for the Chairman, Joint Chiefs of Staff; the Director of Central Intelligence; the Administrative Assistant to the President for National Security Matters; the Special Assistant to the President for Cold War Operations; the Military Liaison Officer; the Executive Secretary, NSC; and the Deputy Executive Secretary, NSC.

There follows a general account of the main positions taken and the chief points made at this meeting.

[Here follows discussion of items 1 and 2 concerning policy questions surrounding the development of practical nuclear power and the effect of Stalin's death in the Soviet Union and throughout the Communist world.]

3. Developments in Iran Affecting U.S. Security (NSC Action No. 729–b; NSC 136/1)[2]

Mr. Cutler briefed the Council on the latest available information on Iran, which included the probability that Mossadegh was about to turn down the latest plan for settlement of the oil controversy. Mr. Cutler also outlined to the Council the three questions which Mossadegh was thought to be about to present to Ambassador Henderson by way of eliciting what assistance this Government was prepared to give to his regime.[3]

Secretary Dulles then stated that he had just received that morning a telegram from Ambassador Henderson, stating that he had now reached the conclusion that Mossadegh would not solicit an answer to these questions unless he judged that he could expect a favorable reply by the United States.[4] We should not, said Secretary Dulles, in his opinion give any hint to Mossadegh that he could expect a favorable response to these questions. Any proposal that the United States purchase Iranian oil at this time would constitute a terrific blow to the British. In discussing this idea with him during his visit, Foreign Secretary Eden had told Secretary Dulles that if we even sent technicians to assist in reopening the Abadan refinery, Eden would be unable to survive as Foreign Secretary. Anything more than the technicians would, of course, be that much worse. It was the feeling generally in the State Department, continued Secretary Dulles, that we should not encourage the Iranian Government as to any hope of reactivating the refinery or of buying Iranian oil. We might, however, give some slight added technical and military aid in order to assure the Iranian Government of our friendly intentions.

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[1] Drafted by Gleason on Mar. 12.

[2] For NSC Action No. 729, see footnote 8, Document 312. For NSC 136/1, see Document 240.

[3] See Document 315.

[4] Reference is to telegram 3644, Mar. 11, *supra*.

Mr. Cutler raised the questions of the repercussions if the Iranian Government, as it easily could, should determine to slash the price of Iranian oil. There were plently of tankers available to carry it, and the effect would be chaotic on the world price of oil.

Secretary Wilson speculated as to whether Prime Minister Mossadegh had not framed his three questions in anticipation of a negative response from this Government. The monkey would then be on our back, and Mossadegh could point to United States as hostile to Iranian aspirations. Secretary Wilson, however, agreed that there was no alternative but to say "no" to these questions. If we replied in the affirmative we would not only help to destroy what was left of the idea of sanctity of contracts, but if we entered into an agreement to purchase oil from Mossadegh we ourselves would quickly be swindled. Secretary Wilson did say, however, that it seemed to him from his knowledge of this problem, that the Iranians felt that in all past negotiations with the British on oil settlement, the cards had been constantly stacked against them. Could we not, therefore, as a friendly gesture, offer to look over these past procedures in order to reassure the Iranian Government that their interests had not really been overlooked or would not be overlooked in further negotiations?

Secretary Dulles responded by saying that we had already taken pains to do this. He went on to say that of course if the British were completely shut out from Iran and from the negotiations, it would not probably be difficult to get results from Iran, but the United Kingdom was involved deeply in concern for its own prestige, and this was a much more difficult thing to deal with than any mere matter of compensation. It seemed to Secretary Dulles that we must somehow try to become senior partners with the British in this area and work in that context.

Secretary Wilson expressed agreement, and said that our real objective was to try to secure a settlement while at the same time saving British face.

Mr. Cutler asked Secretary Dulles to explain the latest terms which had been offered to Mossadegh and which he was about to turn down.

Secretary Dulles did so, and explained at some length the Iranian fear that if they submitted the issue of compensation to arbitration at The Hague, they would undergo a protracted economic bondage to Great Britain. But Secretary Dulles was inclined to think that even if the Mossadegh regime refused to accept the latest proposals, these were not the last possible terms. We might yet be able to meet this Iranian dread of indefinite tutelage to the British. In any case, continued the Secretary, we cannot force the British hand. They have suffered in recent years terrible blows to their prestige—in the Suez, in the Sudan, and elsewhere.

Secretary Humphrey also agreed with Secretary Dulles that we could achieve our objectives if we could negotiate alone with the Iranians, but that we could not afford to achieve our objectives in Iran if we "did in" the British at the same time.

The President said that he had very real doubts whether, even if we tried unilaterally, we could make a successful deal with Mossadegh. He felt that it might not be worth the paper it was written on, and the example might have very grave effects on United States oil concessions in other parts of the world.

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The National Security Council:[5]

a. Noted an oral report by the Secretary of State on possible courses of action with respect to the current situation in Iran, and agreed:

> (1) That the three questions which the Iranian Prime Minister had been considering asking the United States Government, should not be answered in the affirmative if they are actually presented.
>
> (2) To give economic and technical assistance to Iran on a modest scale, if necessary, in order to maintain the present government.
>
> (3) That no proposal to buy Iranian oil should be made at the present time.

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[5] Paragraphs a-b and the note constitute NSC Action No. 735. (S/S-NSC (Miscellaneous) files, lot 66 D 95, "Record of Actions by the NSC, 1953")

(4) To explore the possibility of more equitable procedures for an Anglo-Iranian settlement.

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Note: The action in a above subsequently transmitted to the Secretary of State for implementation.

[Here follow discussion of a decision to postpone consideration of United States objectives and courses of action with respect to Latin America until the next scheduled NSC meeting and a report on the status of NSC projects as of March 9.]

S. EVERETT GLEASON

No. 319

888.2553/3-1353: Telegram

The Secretary of State to the Embassy in Iran[1]

TOP SECRET WASHINGTON, March 13, 1953—3:58 p. m.
PRIORITY

2387. It appearing increasingly likely that latest proposals for solution of oil dispute will be rejected, Department has been giving serious consideration to our future policy as regards Iran. Following represents coordinated US Government position as of this date in event proposals rejected:

1. In absence of agreement for settlement of compensation question US Government would not purchase Iranian oil.
2. US Government would continue informally to discourage dispatch of American technicians to assist in reactivation Iranian oil industry, although it is recognized that it might be difficult if not impossible prevent employment of certain number American technicians through private contracts.
3. US would continue to give TCA and military assistance as long as Iran remains eligible for such assistance, appears to benefit from it, and desires that it be continued.
4. US Government would not extend large-scale direct financial assistance to Iranian Government. This Government may however be prepared in appropriate circumstances to consider relatively small amounts of financial aid for budgetary assistance and for economic development as evidence of our continued interest in welfare of Iran. This question would be kept under constant review to see whether aid of this nature could be used effectively to diminish possibility of gradual loss of Iran to free world.

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[1] Repeated to London. Drafted by Richards; cleared in draft with the Under Secretary of State, Deputy Under Secretary of State, Belton O. Bryan of S/MSA, Nitze, Linder, Bonbright, Byroade, and Jernegan; and approved by the Secretary of State.

5. US would continue view Iranian situation with concern and sympathy and would be prepared at any time to take any appropriate measures to assist Iran and UK to come to reasonable agreement which would not, in our opinion, prejudice other international concessionary or contractual arrangements. It does not however have any present plans for future negotiations.

While it does not seem at present Mosadeq will address to you three questions anticipated in your 3605,[2] it will be seen from the foregoing that if such an eventuality should occur the answers would be negative. In future dealings with Iranians you are authorized in your discretion make use of above policy positions in manner you consider most wise in view of local situation.

DULLES

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[2] Document 315.

No. 320

788.00/3-1453: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET TEHRAN, March 14, 1953—noon.

3692. 1. In present circumstances impossible Embassy have direct contacts with Shah. Nevertheless through confidential channels we have received certain messages from him and other information which enables us assess with some reservation his present attitude and activities regarding differences with Mosadeq. Although Shah's firmness in face pressure applied by Mosadeq and his supporters appears to fluctuate from time to time, nevertheless he seems still to be showing passive resistance. When for instance members Majlis committee[2] who have been trying find basis for composing differences suggested Shah agree give up his constitutional rights as Commander-in-Chief Iran Armed Forces and surrender crown lands and management shrines government Shah inquired if this meant committee desired him to leave country, stating he would depart rather than agree such suggestions. Committee thereupon retreated and instead submitted statement more ambiguous character which Shah signed (Embtel 3667, March 12, repeated London 1217).[3]

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[1] Repeated to London.

[2] Reference is to the Majlis Committee of Eight, established to try to resolve the differences between the Shah and Prime Minister Mosadeq.

[3] Not printed. (888.2553/3-1253)

2. In private conversations with his supporters who have been pleading with him take action Shah has been insisting it would be unwise for him openly oppose Prime Minister until fiction which has been created that Mosadeq great statesman and patriot who can lead Iran into new happy era has been completely abolished. Shah says it becoming more clear daily that Mosadeq unable extricate Iran from political and economic morass into which he has led it and that even to stay in power Mosadeq despite his past criticism of dictators is being compelled resort more and more to dictatorial methods. Shah expresses belief that in not distant future Mosadeq will become completely bankrupt politically and can then be replaced by some more practical political leader without necessity any direct intervention on part Shah. Shah states that in meantime he will continue refuse abandon any powers and privileges granted him under constitution and will continue do all he can protect his subjects who are being persecuted because of their loyalty to him.

3. Shah through trusted Army officers apparently has been trying ascertain just what officers now holding key positions in Armed Forces could be depended upon to be loyal to him if unexpectedly open break should take place between himself and Mosadeq. Shah is in general encouraged by results these inquires, although it seems clear that present Chief Staff and Chief Police if faced with necessity making decision would throw their lot with Mosadeq rather than with Shah.[4]

HENDERSON

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[4] Ambassador Henderson reported on Mar. 20 that in recent interviews he had with Minister of Court Ala, Ala made remarks that tended to confirm the Embassy's analysis in the first two paragraphs of telegram 3692. Henderson also reported that Ala denied that the Shah had either signed or approved the Parliamentary Committee of Eight statement referred to in paragraph 1 of telegram 3692. (Telegram 3771; 788.00/3-2053)

No. 321

888.10/3-1853: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET PRIORITY TEHRAN, March 18, 1953—6 p. m.

3752. Eyes only Secretary and Byroade.

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[1] Transmitted in two sections; also sent to London eyes only for Ambassador Aldrich.

1. As I was preparing leave Prime Minister today after conclusion our conversation regarding his proposed speech[2] he said he would like talk about extremely serious matter. He regretted his government could not accept oil proposals. To do so would represent betrayal trust Iran people. Now that there seemed be little hope oil settlement immediate future, he must decide course to be followed. Financial-economic situation extremely grave. Government must take action decisive character without delay. He would like my frank opinion as to whether it would be wise for government issue statement to effect it willing sell oil at 50 percent discount to any buyer. I told Prime Minister it not appropriate for me give him advice this matter. Decision this kind one which only Iranians responsible for future their country should make. Only comments which I could offer were that such announcement might make more difficult ultimate settlement oil problem; it would not be likely result in any material alleviation Iran's economic and financial problems; if it would result in purchase by Iron Curtain countries of Iran oil, Iran's financial and economic difficulties might be increased. I did not believe Iron Curtain countries had intention purchasing oil from Iran in helpful quantities; they might make limited purchases primarily to force US to take certain action in conformity with Battle Act which would curtail any US aid.

Prime Minister asked whether US could not make some kind loan to Iran to be repaid in form oil or from proceeds oil sold to other parties. I said I doubted US Government could extend financial assistance to Iran at time when Iran was rejecting proposals for settlement oil problem which US Government considered fair and reasonable and which, if accepted, would enable Iran obtain revenues from its oil resources. Prime Minister asked whether US Government could not at least sell Iran immediately 100,000 tons sugar on credit. I said such credit would really be loan and same considerations would apply as to loan. I also doubted that US Government had funds available for such purposes. He asked whether this could not be considered TCA transaction. I replied negative, such limited funds as were available to TCA were already allocated for technical assistance purposes. Prime Minister said Iran seemed have three choices; he would be grateful if I would describe them to US Government and inquire whether US Government would give him information enabling him determine which to make. He scribbled description "three choices" and asked Saleh, my Iran Adviser to copy. Following is translation:

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[2] Reference is to Mosadeq's radio speech of Mar. 20 to the Iranian people announcing the breakdown of the oil negotiations. The text of his speech was transmitted to the Department in despatch 780, Mar. 24. (888.2553/3-2453)

First: to purchase 100,000 tons of sugar on credit from American companies on condition that if within period six months countries other than those behind Iron Curtain should offer buy oil, Iran Government would sell them oil and pay price sugar from proceeds of sales.

Second: Notice to be published whereby Iran Government would sell to first buyers 3,000,000 tons oil within period three months with 40 percent discount. If American oil companies would make first offer for these 3,000,000 tons, no contracts would be made with any iron curtain country during said period of three months.

Third: Any purchaser may buy oil at any price acceptable to Iran Government on cash carry basis for definite period time, no purchases to be made on credit. Only countries of Western bloc could buy oil on such credit terms as they may desire.

2. I discussed briefly with Prime Minister what he had written, repeating I thought there no likelihood US would be able sell Iran 100,000 tons sugar on credit. I also stressed that Iran's difficulties certain to increase if it should begin selling oil to iron curtain countries. It would be difficult find American oil companies prepared to purchase 3,000,000 tons oil at this time. I did not believe Iran could extricate itself from its present financial difficulties through any of three ways outlined. Only by settlement oil dispute would Iran be able in my opinion surmount its present difficulties. Prime Minister said in any event he would appreciate it if I would submit these three choices to US Government and inquire regarding extent it would be able to give assistance. If it could not give financial loan nor sell sugar on credit, could it prevail on some American company or companies to buy 3,000,000 tons Iran oil? He needed answer urgently. I agreed make inquiry but said I would be lacking in candor if I did not tell him now little possibility of loan, extensions of credit, or purchase large amounts oil by American oil companies. Prime Minister said would be extremely unfortunate if impression would be created in Iran US cooperating with UK in endeavoring strangle Iran in order force it accept UK terms oil settlement. I said US Government had no desire see Iran strangled. US Government was anxious that Iran be independent and healthy politically and economically. That was why US Government had been spending so much time and effort assist in finding solution oil problem and so many millions dollars annually in extension military and TCA aid. Prime Minister repeated hope I could obtain early answer.

3. *Comment*: In spite Prime Minister's desire for early answer, I inclined believe might be preferable not rush reply. I plan tentatively visit Isfahan and Shiraz during Iran New Year holiday week March 23-29. We might postpone reply to Prime Minister until early April. Majlis will reconvene about April 5.

HENDERSON

No. 322

788.00/3-3153: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET PRIORITY TEHRAN, March 31, 1953—1 p. m.

3853. Noforn. Eyes only Secy and Byroade.

1. On my return March 29 from week Isfahan and Shiraz I found message Ala, Minister Court, wished see me urgently. I saw him morning 30th. He referred article regarding Iran *Newsweek* March 23 (Embtel 3800 March 24)[2] which he said distinctly unfriendly to Iran and harmful relations Iran and US since it was insulting to Shah, Mosadeq and Kashani, three leaders of country. I explained US Government not responsible for *Newsweek* and I certain garbled and distorted story not leak from US Government officials.

2. Ala said he would like inform me regarding developments last ten days. Rift between Mosadeq and Shah too great to be closed. Mosadeq openly active against Shah, sending emissaries provinces to stir up anti-Shah agitation and endeavoring form solid front against Shah of more opportunistic politicians. Mosadeq without success had tried turn Kashani and Zolfagari brothers against Shah. To placate Haerizadeh he had offered him job Inspector of Embassies. Haerizadeh had been tempted but Kashani had persuaded him not to accept. Mosadeq was apparently trying arrange demonstrations over coming weekend in order frighten members Majlis into passing resolution approving report Committee of Eight, which would curtail Shah's powers and privileges. Practically all elements really concerned regarding future stability Iran were now convinced that unless energetic steps taken to overthrow Mosadeq in immediate future, such influence as Shah still had would disappear and there would be no force left capable of stopping Mosadeq from embarking on any kind irresponsible project which his advisers might suggest.

3. Ala said during past week he had been approached by number politicians who insisted he tell Shah if Shah further postponed action regarding Mosadeq it might be too late save Iran. Ala

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[1] Transmitted in two sections; repeated to London eyes only for Ambassador Aldrich.

[2] Not printed. (788.11/3-2453)

thought they right. Most these elements believed only person available to replace Mosadeq was General Zahedi, Zahedi would have support such political leaders as Kashani, Haerizadeh, Baqai, Zolfagari brothers as well as more conservative elements and army. Maki might also support him. Zahedi had visited Ala secretly three days ago and had indicated he would accept Prime Ministry only if Shah would express desire that he do so and would promise support him. General had said unless Shah would come out openly against Mosadeq there was little chance Majlis would have courage to act. Ala had told Zahedi he was certain Shah would not be willing to act unconstitutionally, Shah would not be party to any *coup d'état.* Zahedi insisted if Mosadeq was to be overthrown by peaceful means, Shah must make statement at time meeting of Majlis (April 5) condemning Mosadeq for leading country toward ruin. Ala told me he planned try to persuade Shah to make such statement. Ala said he had visited March 29 Borujerdi, most respected Mullah Iran, in order ascertain latter's attitude regarding Zahedi. Mullah had not committed himself but had seemed sympathetic and had promised let Ala know his decision later.

4. Ala said group who interested in overthrow Mosadeq Government had asked him inquire of me whether "US Government was still supporting Mosadeq". If in my opinion there was still good chance Mosadeq would be able effect settlement oil problem, they might decide postpone taking action.

5. I expressed surprise Ala should put such question. I had already informed him several times US not supporting Mosadeq or anyone else as Prime Minister. It was policy American Government maintain as friendly relations as conditions would permit with any Prime Minister who had firman from Shah. Maintenance such relations should not be regarded as evidence that US was supporting any Prime Minister personally. He should further understand US Government could not be associated with *coup d'état.* If patriotic Iranians should consider coup necessary in order save Iran, they should act on their own responsibility and not expect any foreign power to become involved in such venture. Time had come when Iranians themselves should determine fate country instead of looking to foreigners to make decisions for them. Ala said he had already assured group who had talked to him that US was not supporting Mosadeq as person but was merely treating him with consideration due to Prime Minister Iran. On this groups insistence however he had again put question to me. He promised keep me informed of developments.

6. In conversation two weeks ago Ala had told me Mosadeq was blaming him in part for failure Shah to leave Iran February 28 and was insisting Ala be replaced as Minister Court by Kazemi, present

Minister Finance, who has been notoriously anti-foreign. Shah however had refused agree such change. Ala said this morning Mosadeq now demanding that Moazami, Nationalist Deputy, supplant Ala. Shah however was continuing resist Mosadeq plea to get rid of Ala.

7. Ala's views usually reflect those of Shah. If they do in present instance it will be first time Court has really regarded Zahedi's candidacy with favor. Judging however from performance of Shah, Ala, and various opponents of Mosadeq in past, it would be somewhat surprising if at this juncture their desire for the new Prime Minister would get far beyond conversation.

8. Zahedi as Prime Minister might be no improvement over Mosadeq. Nevertheless since latter seems persistently to be leading Iran towards disaster, risks involved in change would be not be too great. Although Ala in general has good intentions, he is somewhat lacking in discretion. Furthermore, Shah sometimes discusses confidential matters in presence gossipy courtiers. I therefore consider it advisable not to make kind of reply to Ala's question which if it should become public might create impression that attempt either by peaceful means or by force to effect change government was inspired by US.

9. Extremely important no leak.

HENDERSON

No. 323

888.10/4-453: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET PRIORITY TEHRAN, April 4, 1953—2 p. m.

3898. 1. I saw Prime Minister noon today and gave him reply to his questions outlined in Embassy telegram 3752 repeated London 1249[2] as directed in Deptel 2514 March 30 repeated information London unnumbered.[3]

2. I opened conversation by telling Prime Minister that as I had foreseen answers were negative. When I started transmit them he said transmission unnecessary. "It enough for me that they are negative". I insisted, however, in giving answers with precision

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[1] Also sent to London.

[2] Document 321.

[3] In telegram 2514 the Department generally supported the views expressed by Henderson in telegram 3752. It also urged that Mosadeq be reminded of the obvious disadvantages of trading with the Soviet bloc. (888.10/3-1853)

since I wished particularly impress upon him inadvisability selling oil Soviet bloc.

3. After I had conveyed answers he asked what in my opinion he should do. I replied that I considered only way for Iran extricate itself economically and financially would be for it come to agreement with United Kingdom re oil. Prime Minister said he had been thinking of writing President setting forth Iran's situation. It difficult for him believe that if President had full understanding of Iran's position he would not understand that it necessary for United States Government come to Iran's assistance. I told Prime Minister that in my opinion it would serve no useful purpose for him address letter to President. United States Government with best will in world could not at this time flout United States public opinion by purchasing from Iran nationalized oil in absence some kind compensation agreement. Prime Minister said Iran prepared pay compensation but no bill had thus far been presented to it re amount compensation due. Iran willing submit budget compensation to International Court provided United Kingdom would indicate maximum amount claimed by it and that amount would not be out of reason. I told Prime Minister thought it would serve no useful purpose for us again to start discussion oil dispute. My terms reference during conversations last three months had been limited to endeavor attain agreement based on international arbitration. On instructions United States Government I presented to him proposals from United Kingdom which United States Government had considered as reasonable and fair. He had not accepted these proposals and had made no concrete counterproposals. United Kingdom Government on its part also showed no disposition make fresh proposals. In such circumstances there was nothing to be gained by our endeavoring to assess blame for failure of conversations.

4. At this point Prime Minister brought up another matter and did not again mention oil problem. Neither did he indicate course of action which he might pursue.

HENDERSON

No. 324

788.00/4-1553: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET NIACT TEHRAN, April 15, 1953—1 p. m.

4027. Eyes only Acting Secretary and Byroade.

1. Ala Minister Court visited me early this morning. He said he had had long conversation yesterday with Shah in endeavor persuade latter take some positive action re internal political situation. Shah had taken definite position he would not take any step remove replace Mosadeq unless Majlis by vote would indicate lack of confidence in Mosadeq or inclination for successor to him. Shah had given two general excuses for taking this position.

(a) He suspected British responsible for present friction between Court and Government and were trying produce situation civil war so they would have pretext divide Iran between themselves and Russians. Although he trusted Americans they had in past been hood-winked so much by British he saw no reason why they should not be deceived again. He did not wish do anything which would result in Iran being torn by strife and disappearing as independent country.

(b) He did not wish be cats paw ambitious unscrupulous Iranian politicians. Members Majlis coming him with one story and going Mosadeq with another. It was clear various members Majlis who were most insistent on his intervention really had no feeling loyalty toward him but merely sought use him to attain their political ambitions. If members Majlis sincerely desired support Court against Mosadeq and advisers they could stand up in Majlis and say so instead asking him take lead in matter. He had no assurance that if he should make move oust Mosadeq members Majlis who were pressing him to do so would back him if such move would encounter serious resistance. It seemed to him therefore that he should remain in background and let politicians fight it out.

2. Ala said he had pointed out to Shah if latter remained quiescent Mosadeq's henchmen by intimidation and threats might eventually prevail on Majlis to adopt report committee eight[2] which interpreted Iran constitution in such manner as virtually to deprive Shah such powers as he still possessed. Shah had replied he had read this report and it did not seem so serious to him; in fact it appeared to him to be in spirit constitution. Why should he try prevent its adoption if members Majlis were in favor of it? Would adoption really change anything? Ala had answered purpose adop-

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[1] Transmitted in two sections; also sent to London eyes only for Ambassador Aldrich.

[2] See footnote 2, Document 320.

tion was to make it clear to country and particularly to armed forces that Shah was completely subservient to Mosadeq. Adoption would mean Mosadeq or his successor would have complete control armed forces; that Court and armed forces would no longer be element stability in country divorced from politics; that Shah would be nullity and army would develop into impotent political organization. Army officers in future would be tempted advance their careers not by demonstration merit but by political intrigue. During conversation Shah had displayed certain amount impatience and said he was sorry Ala as Minister Court would become involved in this dispute. He regretted that Ala had talked to Kashani and other politicians. Ala had replied that he had no ambition remain as Minister Court. Whether Minister Court or not he intended however to do his utmost to preserve constitution so far as Shah was concerned. Struggle which he was making was not for person of Mohammed Reza but for preservation of institution of Shah which he considered at present necessary for preservation independence Iran. Shah had finally agreed he would give matter further consideration and had promised receive General Zahedi secretly evening April 16.

3. Ala told me April 16 might be extremely dangerous day. It seemed at last quorum deputies were in Tehran. Hitherto national movement group deputies had not desired quorum apparently because they did not believe they could obtain majority vote in favor report Committee Eight. They seemed now to have gained confidence and to desire public session Majlis April 16. It was Ala's understanding government was arranging large street demonstrations on April 16 in order bring pressure on Majlis. Proclamations being issued calling on all supporters Mosadeq appear on streets. It possible that bazaars would be closed and people from bazaar mobilized in demonstration. Tudeh would of course join even though government supporters might ostensibly endeavor disassociate themselves from Tudeh adherents. He was thinking of recommending to Shah in these circumstances that Shah issue proclamation removing Mosadeq and appointing Director Public Security to maintain law and order pending vote of inclination of Majlis for successor Mosadeq. If Shah should do this national movement deputies would probably boycott Majlis but vote inclination was possible without quorum. Unfortunately it seemed impossible prevail upon Shah appoint Prime Minister without vote inclination. Ala asked what I would think of such plan.

4. After long discussion Ala decided endeavor meet situation of April 16 along following lines provided government did not change its plans for big demonstrations:

(a) Shah supporters would be advised not to make counter-demonstrations since they would be dispersed by armed forces under orders government and could not resist on streets fighting groups mobilized by government and Tudeh.

(b) Endeavor would be made prevail on certain members opposition to absent themselves from Majlis so there would be no quorum.

(c) Attempt would be made prevail on Kashani, President Majlis, to write letter Shah stating that in view lawless conditions in city and threats made against deputies Majlis unable in spite protection supposed to be furnished under martial law to function because no quorum obtainable.

(d) Shah would issue proclamation quoting letter Kashani expressing his appreciation and that of Iranian people for services rendered by Mosadeq in past, stating that Mosadeq, however, had unfortunately fallen under influence advisers who had persuaded him to pursue policies which rendered impossible functioning of free Iranian institutions; that therefore he was authorizing return Mosadeq to private life and appointing Director Public Security to preserve law and order until Majlis could give vote of inclination re new Prime Minister. Proclamation also would call on all Iranian officials to continue performing their duties and upon armed forces and security agencies to obey Director Public Security.

5. Before leaving, Ala told me he would do his utmost to prevail on Shah to see Zahedi today instead of tomorrow evening since quick action might be necessary tomorrow. Ala said he thought if Shah would agree to plan Zahedi or someone agreeable to Zahedi would be choice for Director Public Security and Zahedi would probably receive vote of inclination as Prime Minister. As of yesterday, however, Shah was not certain that he preferred Zahedi as Prime Minister.[3]

6. I of course have grave doubts that Shah could be persuaded to take kind of bold action outlined by Ala. I furthermore am not sure that Kashani would be willing to contribute to Ala's plan by sending letter to Shah of kind outlined by Ala.

HENDERSON

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[3] Ambassador Henderson reported on Apr. 19 that he had seen Ala that morning, and that Ala said that the Shah had been daily postponing his meeting with Zahedi. Ala's explanation for this behavior was that the Shah continued to take a passive and almost detached attitude toward events, possibly because the Shah was receiving a considerable amount of conflicting advice and found it preferable to do nothing rather than decide to adopt a course of action. (Telegram 4093; 788.00/4-1953)

No. 325

788.00/5-853: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET PRIORITY TEHRAN, May 8, 1953—2 p. m.

4356. 1. In considering various policy problems re Iran Department may be interested brief evaluation by Embassy present position Mosadeq. Although at present Court appears to be weakening in struggle with Mosadeq and opposition in Majlis unable mobilize its resources effectively against him Mosadeq's position is certainly weaker than it was before he undertook struggle against Shah last February.

2. Appointment Amini Acting Minister Court as successor Ala generally regarded here as victory for Mosadeq. Since his appointment Amini has been intermediating between Mosadeq and Shah and has been issuing number conciliatory and optimistic although at times conflicting statements re progress in achieving understanding between Mosadeq and Court. . . .

3. Although opposition in Majlis has not been able take effective offensive it has not been dispersed and continues through guerrilla tactics to prevent Majlis from having quorum and government from engaging in constructive activities. Even if, as is being optimistically predicated in pro-government circles, Majlis may be able meet within next few days there is justified doubt that it can take action of character which will appreciably strengthen Mosadeq's position. For instance unless some surprise event should take place government may encounter extreme difficulty in depriving Baqai of Parliamentary immunity. Government failure in this respect will reflect on its strength following official announcement charging Baqai with complicity murder police chief Afshartus.[2] Government will also face stubborn opposition in attempting obtain unqualified Majlis approval committee of eight report substitute measure limiting Shah's powers. Fact that General Zahedi is being given in general sympathetic reception by mass Majlis during his present period of asylum there indicates decline in prestige and authority Mosadeq in Majlis.

4. During last six months there has been sharp shift in basis Mosadeq support among political leaders. Most elements original National movement now in open or tacit opposition. Indications friction appearing between him and Iran Party one of last National

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[1] Also sent to London.

[2] Reference is to the murder of the Chief of Police, General Afshartus, whose body was discovered on Apr. 14. Afshartus had been a political ally of Mosadeq.

movement elements which still support him. Mosadeq's support now appears largely to rest on security forces which he tells me he does not trust, government bureaucracy including newly appointed governors general whose loyalty untested, government monopoly of radio and variety groups and individuals with widely divergent interests . . . . When it serves party's interests Tudeh also rallies to his support in times of strain. His most important strength still is his great reputation as Nationalist leader struggling free Iran from foreign control. Also fact that for two years he has been Prime Minister gives him certain prestige among rank and file. Nevertheless his failure solve oil problem by way economy advantageous Iran, economic deterioration of country, his frequent use of mass demonstrations in order bring pressure on opposition, his inability obtain cooperation outstanding political leaders country, and his resort military law maintain order have served weaken his popularity even among masses.

5. Mosadeq still however, outstanding political figure Iran. His opponents thus far have not shown courage and spirit unity necessary seriously to threaten him. Most dangerous threat which we can see at present moment is that coming from Amini group working from within. This group would require exceptional skill however, if it to succeed overthrow Mosadeq either by peaceful methods or by force. Zahedi has to extent retrieved position taking refuge in Majlis and by presenting his case individually to Majlis leaders and press. Zahedi thus far however, has not been able obtain support Shah which he has considered essential his success. Moazami only deputy who in past has frequently contrived make himself middle of road compromise candidate for office now being discussed certain circles as possible successor Mosadeq who would be acceptable to National movement as well as various opponents that movement. He may eventually become real threat. . . .

HENDERSON

No. 326

110.11 DU/5-2053: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET TEHRAN, May 20, 1953—4 p. m.

4472. Two hour conversation Mosadeq today in continuation that May 16. (Embtel 4446 May 18 to London 1445)[2] Discussion covering wide gamut subjects most part repetition statements exchanged during previous talks. In conclusion Mosadeq summarized as follows views which he desired conveyed Secretary:[3]

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[1] Also sent to London and New Delhi for the Secretary.

[2] Not printed. (110.11 DU/5-1853)

1. He not asking US destroy for sake Iran its worldwide cooperation with UK.

2. In view lack British interest in achieving solution problem compensation he now believes useless perhaps even inadvisable US make further effort find solution.

3. If Iran continue independent country more economic aid from US essential. He hopes US can extend such aid in so unostentatious manner as not give serious offense to British until it in position extend substantial aid openly. He certain time will come when US will wish extend considerable aid openly. That time will be (a) when change in British Government or change in UK policies will result in British Government having better understanding situation Iran; (b) when US will come realization drastic measures must be adopted if Iran not fall Commie hands. His fear is that decision US extend substantial economic aid Iran may come too late.

4. He hopes US firms will begin buy at once considerable quantities Iranian oil at present cut-rate prices. He realizes US Government itself can not make purchases in present circumstances without seriously offending British.

5. He will do utmost preserve friendly relations US regardless US decision. However negative US attitude will result deterioration Iran politically and economically.

6. He hopes British will eventually realize their former position in Iran can never be restored. No successor Iranian Government can remain long in power if it tries restore British domination Iran.

7. Iran would welcome friendly relations with UK. If UK ambitions dominate Iran should be really abandoned there should be no great difficulty in settling all problems between two countries including compensation.

HENDERSON

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[3] Secretary Dulles and Mutual Security Director Stassen visited the Near and Middle East May 9–May 29. Ambassador Henderson flew to Karachi to brief Secretary Dulles on the current situation in Iran. For documentation regarding the Dulles–Stassen trip, see vol. IX, Part 1, pp. 1 ff.

No. 327

110.11 DU/5-2553: Telegram

The Ambassador in Iran (Henderson) to the Department of State

SECRET TEHRAN, May 25, 1953—2 p. m.

4524. Following is text of oral statement which Secretary has authorized me to make to Mosadeq in confidence:

"Secretary has asked me tell you that I have informed him our recent conversations; that I have also described to him present Iranian financial and economic situation; and that he expects have further discussions with me this regard following my arrival Washington June.

"Secretary has also requested me tell you his present journey through Middle East and Asia primarily fact-finding character; that it has been taken with purpose obtaining better understanding problems this area; and that he not undertaking while on this trip make decisions re policy or action.

"Secretary added he regretted hear you apparently coming opinion it would serve no useful purpose continue searching for solution problem compensation; and that therefore you thinking of ignoring that problem in making plans restoration Iranian economy. He has asked me convey you his hope Iran and UK in their mutual interest and in interest whole free world will find solution this problem soon as possible; and in his opinion such solution will help speedily dissolve many Iran's present difficulties.

"Secretary said he particularly sorry efforts US contribute solution this problem so far unsuccessful.

"Secretary requested I convey you his regret that limitations upon his time have prevented him from visiting Iran this time. He would have liked to have met you and other Iranian leaders and have discussed face to face problems mutual concern. He hopes, however, visit Iran another occasion when he will have more time his disposal."[1]

HENDERSON

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[1] Ambassador Henderson reported on May 26 that the previous day he had an interview with Mosadeq and delivered the Secretary's message. Mosadeq thanked him for it, and expressed his opinion that the United Kingdom as well as the Soviet Union had the same policy toward Iran: to force Iran into political and economic chaos. Therefore, he hoped Henderson, when he was in Washington in June for consultations, would do his utmost to impress upon the U.S. Government the severity of the difficulties he was facing in maintaining political and economic stability in an effort to stave off chaos, Communism, and British control. (Telegram 4535; 110.11 DU/5-2653)

No. 328

788.11/5-2053: Telegram

The Acting Secretary of State to the Embassy in Iran[1]

TOP SECRET PRIORITY WASHINGTON, May 28, 1953—5:51 p. m.

3067. British Embassy Washington has received following message from Churchill reurtel 4474:[2]

"You may certainly inform the State Department that while we do not interfere in Persian politics we should be very sorry to see the Shah lose his powers or leave his post or be driven out. Perhaps Mr. Henderson will convey this assurance to the Shah and say that it comes personally from me."

SMITH

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[1] Drafted and signed by Richards.

[2] In telegram 4474, May 20, Ambassador Henderson informed the Department that he spoke with an emissary of the Shah on May 17, who said that the Shah was disturbed by the British attitude toward him and wanted a clarifying statement from Henderson as to the British attitude before Henderson departed for Washington early in June. (788.11/5-2053)

No. 329

788.11/5-3053: Telegram

The Ambassador in Iran (Henderson) to the Department of State

TOP SECRET PRIORITY TEHRAN, May 30, 1953—1 p. m.

4573. Limited distribution in the Department.

1. My conversation with Shah this morning lasted about eighty minutes. To obtain maximum privacy it took place in Palace garden.

2. I conveyed message contained Deptel 3067 May 28. He expressed gratification pointing out British in past had endeavored persuade him conduct himself as constitutional monarch in European sense and avoid participation Iran political life. He said it appears British policy this regard now changing. He personally convinced that unless Shah would play certain role in political and particularly military life country would be in confusion and chaos.

3. I told him I would like frank statement his attitude re General Zahedi. He said although General not intellectual giant nevertheless would be acceptable as Prime Minister on three conditions: (a) he would come into office through legal, parliamentary means; (b) he would come in with wide measure political support; (c) he would

be acceptable to US and UK and either US or US and UK would be prepared to give new government emergency financial as well as massive economic aid. He would prefer no change of government to new government which could not obtain substantial foreign financial and economic aid.

4. I told Shah I had impression British would welcome Government headed by General Zahedi and so would US provided sure Shah would give Zahedi full and sustained support. Disastrous for Iran if . . . Shah would change his mind and withdraw support General. Shah insisted he would not change mind but conditions which he laid down should be clearly understood.

5. Shah said he did not believe General Zahedi could come into power through military coup. Friends of General Amini gradually taking over key military positions. Several months ago General Amini's brother, present acting Minister Court, had endeavored persuade Shah come out openly in support General Zahedi. Amini's attitude recently had changed. Latter now advocating stop-gap rather weak National Front government to be followed later by strong government. Shah asked what I would think of "stop-gap" government. I said it seemed to me like trying ride two horses simultaneously. Support General Zahedi not likely be effective if those giving it were at same time looking around for alternative weaker candidate act as "stop-gap". Shah agreed but said Amini groups might be able block General Zahedi.

6. Shah asked if oil dispute still active. I replied no. In response my questions Shah expressed opinion it would be easier to effect settlement oil problem with Dr. Mosadeq than with successor. Any avenue which might lead towards settlement oil dispute with Mosadeq should not be ignored even if attempt at settlement might result in prolongation Mosadeq Government.

7. Shah said he hoped in case no settlement oil dispute possible and if Dr. Mosadeq continued in power US would extend sufficient financial and economic assistance to enable Iran pass through present crisis.

8. Shah said present relationship between himself and army intolerable. He no longer was receiving reports re developments army. Army officers no longer dare visit him. Too humiliating for him remain Iran in such circumstances. Unless situation should change therefore he determined go abroad in July for visit Crown Prince Saudi Arabia.

9. Shah said Amini sure to question him re our conversation. He would inform Amini I had described my trip Karachi and had told him oil dispute no longer active. He would then add that he had informed me that in his opinion it would be easier effect settlement oil dispute with Mosadeq than with any successor and he hoped

every effort would be made to this end. He would also tell Amini he had expressed to me his earnest hope that even though no oil settlement could be obtained US would extend economic and financial assistance to Iran to enable country survive.[1]

10. Leave to Department's discretion re informing British.

HENDERSON

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[1] Ambassador Henderson enclosed a memorandum of this conversation with the Shah in a letter to Byroade dated May 30. (788.00/5-3053)

No. 330

888.2553/6-553

Memorandum by the Assistant Secretary of State for Near Eastern, South Asian, and African Affairs (Byroade) to the Secretary of State[1]

TOP SECRET WASHINGTON, June 5, 1953.

Subject: Letter from Dr. Mosadeq to President Eisenhower

There is attached a copy of a letter from Prime Minister Mosadeq to President Eisenhower which was delivered to the President on June 5, 1953 by Ambassador Henderson.[2]

In handing this letter to the Ambassador for delivery to the President, Dr. Mosadeq said that it would be most unfortunate were the existence of the letter to become known.

The following are the principal points in the letter:

1. A recitation of the difficulties experienced by Iran, allegedly as a result of British attitudes and activities.
2. An expression of grave concern over the probable consequences of a further deterioration of the financial and economic situation in Iran, which deterioration can be reversed only by (a) the removal of obstacles to the sale of oil or (b) increased economic aid from the United States.
3. An urgent appeal to the U.S. for increased aid "if the American Government is not able to effect a removal" of the obstacles to the sale of Iranian oil.[3]

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[1] Drafted by Richards.

[2] For text of Mosadeq's letter, May 28, see Department of State *Bulletin*, July 20, 1953, p. 74. Eisenhower's reply, delivered to Mosadeq on July 3, followed the line of policy agreed on at the June 19 meeting; for text, see *ibid.* See also Document 332.

[3] A handwritten note by Byroade on the source text reads: "Sec: We will give you a draft reply as soon as possible." According to a memorandum of a conversation held in the Department of State on June 19, among Matthews, Bowie, Waugh, Schaetzel, Raynor, Jernegan, Richards, Stutesman, and Ambassador Henderson, it was decided that a reply should be drafted for the President to send to Mosadeq that would politely refuse his request for immediate increased economic aid but would not burn any bridges in case, at a later date, the United States might wish to make budgetary and economic aid available to an Iranian Government. (888.2553/6-1953)

No. 331

788.00/6-1653: Telegram

The Chargé in Iran (Mattison) to the Department of State

SECRET TEHRAN, June 16, 1953—2 p. m.

4658. In belief it would be useful to Ambassador and Department forthcoming conversations re Iran, brief analytical comment follows on developments here since Ambassador's departure:

1. Thus far in June no essential change has occurred in internal situation Mosadeq Government. Strongest critics admit for near future government control state administration, armed forces and radio, strong combination. However, country's internal problems and public dissatisfactions have not lessened.

2. In Majlis opposition continues unabated with both sides preparing for important and unpredictable election Majlis officers scheduled end June. Opposition hopes re-elect Kashani. National movement candidate not yet certain, with some internal dissension evident. Government anxious gain victory since this could cripple opposition use this forum. Meanwhile, controversial issues such as Committee of Eight Bill and Deputy Baqai's immunity question being delayed.

3. Criticism government more marked in press by appearance several opposition journals. Government circles maintain strong criticism oppositionists, particularly Kashani who with others is consistently dubbed British agent. Opposition has begun reiterate theme Mosadeq regime being supported by Tudeh and that some government leaders pro-Communist. If present-scale opposition activity maintained, it would be surprising if Prime Minister did not make countermoves, which, however, may be deferred until results election Majlis officers.

4. Position of Shah, already weakened as symbol rallying point of opposition, was not helped by trip of Queen Soraya to Europe, which was given unfavorable publicity here (aided by Communist press). Unexpected return Queen June 14 indicates Shah aware of this.

5. Economic difficulties of country beginning to show in price increases and resurgent wage demands. Inventories acquired at favorable exchange rates (e.g. 41 to dollar) largely exhausted and Bazaar now ordering on short-term basis at current rate (e.g. 105 to dollar). Spiraling prices bound to result unless government able

arrest trend which it presently lacks means to do. TCI dollar aid indispensable surmount sugar crisis but it cannot meet all growing dollar deficiencies. Anticipated bumper crops may help delay inflation, general awareness of which also indicated by increasing rate investment private construction activities.

6. Secretary's report on his trip and Ambassador's consultations have caused widespread speculation. Line in pro-government circles, not necessarily belief, has been US on verge modifying its policy toward Iran and much-needed economic and financial aid will be forthcoming irrespective of an oil settlement. Opposition circles take contrary view that firmer attitude will be shown by US toward Mosadeq Government and oil question.

7. Iranian public interest high over possibility serious Iran-Soviet negotiations typified by hurried return to Iran of Soviet Ambassador, his talks with Mosadeq and concurrent signature new Iran-Soviet trade quota list. Scope of talks closely guarded with no leaks, but they may be connected with expected conclusion Korean fighting and attempt to obtain Iranian support for Red China and related Soviet objectives. However, various other aspects Iran-Soviet relations may not be excluded.

MATTISON

No. 332

888.2553/7-1353: Telegram

The Chargé in Iran (Mattison) to the Department of State[1]

SECRET TEHRAN, July 13, 1953—2 p. m.

79. Have had number conversations with informed Iranians since publication Eisenhower-Mosadeq exchange.[2] General attitude has

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[1] Also sent to London and pouched to Tabriz, Meshed, and Isfahan.

[2] On July 8, the Embassy in Tehran informed the Department that the Associated Press had obtained the essentials of President Eisenhower's letter to Mosadeq that was transmitted to Tehran on June 30. The Embassy recommended that if the story appeared in the Iranian press, it would be desirable to release the exchange of letters simultaneously in Washington and Tehran. (Telegram 48; 888.2553/7-853) The Department instructed the Embassy on July 8 to seek Mosadeq's approval of this course of action and suggested the release be timed for 4 p.m., July 9, Washington time. (Telegram 43; 888.2553/7-853) The Embassy in Tehran on July 9 reported that Mosadeq, while perceptibly distressed about the leak, agreed to publish the letters, though release in Tehran would be later than release in Washington. Mattison also said he had made it clear to Mosadeq that the leak had come from Iranian sources. (Telegram 56; 888.2553/7-953) The White House released the texts of the May 28 and June 29 letters on July 9. For texts, see Department of State *Bulletin*, July 20, 1953, p. 74.

Continued

been that personally they felt publication letters had been good thing as serving give clear definition US policy towards Iran. However they fearful of what extremist advisers Prime Minister might urge upon him as retaliation for US "rebuff". Opposition believes its hands strengthened by exchange and this no doubt adds to discomfort Government.

At reported intervention Prime Minister Majlis failed meet July 12. Government apparently also decided refuse make appearance July 14 answer interpellation re use torture in Afshartus case until apology made for Deputy Minister Ashrafi's alleged remark July 9 meeting to effect that if Mosadeq ill he should go to insane asylum. Already delicate Parliamentary situation further stirred up by opposition attempt interpellate Government on its foreign policy. Reports circulating that Prime Minister may ask for referendum presumably in the streets, and may attempt dissolve Majlis.

Government uncertainty increased by worry over significance recent events USSR. Although situation confused, it clear Mosadeq traversing difficult period which opposition seems intent on exploiting.

Embassy has unconfirmed indications Prime Minister may be discreetly passing word out that while he doesn't desire any serious trouble that an incident or two against foreigners would not be seriously viewed by Government.

MATTISON

The following day, July 10, the Embassy in Tehran reported that Mosadeq also requested that the texts of his letter to the President dated Jan. 9 and the President's response of Jan. 10 be released as well and suggested a release time of 2 p.m., Tehran time, July 11. (Telegram 58; 888.2553/7-1053) The Department responded on July 10 that although the President's personal views had not been obtained, the White House agreed to this additional release on July 11 in conjunction with Tehran. (Telegram 70; 888.2553/7-1053) The White House released the texts of these letters as well on July 11. For texts, see Department of State *Bulletin*, July 20, 1953, p. 76.

No. 333

788.00/7-1453: Telegram

The Chargé in Iran (Mattison) to the Department of State

SECRET PRIORITY TEHRAN, July 14, 1953.

91. Rumors rife tonight that Mosadeq will force governmental crisis through resignation all National Front deputies, to be followed by "referendum." Acting Minister Court Amini tells me he trying dissuade Mosadeq from such action, but not optimistic.

Purpose this move stated to be to achieve dissolution Majlis under emergency powers without recourse firman from Shah. Move has no constitutional basis, but Prime Minister apparently believes he has strength to get way with it.

Possibility exists that Prime Minister is spreading news of drastic action in order to bring his divided supporters into line. It is generally agreed that he still remains most astute politician in Iran.[1]

MATTISON

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[1] The Embassy reported on July 15 that on the previous evening all the National Front deputies caucused at Mosadeq's house and resigned from the Majlis, except for Moazami, who was charged with retaining control of the speakership of the Majlis. This action made it impossible for the Majlis to meet because it now lacked a quorum. The Embassy did not know what Mosadeq's next move would be, but there was speculation that he would either hold a national referendum to decide the fate of the 17th Majlis, or that he might decree a new electoral law and call for elections. (Telegram 95; 788.00/7-1553)

No. 334

788.00/7-1753: Telegram

The Chargé in Iran (Mattison) to the Department of State[1]

SECRET TEHRAN, July 17, 1953—2 p. m.

116. Estimate Embassy . . . present political trends follows. Immediate reason Mosadeq's precipitate move eliminate present Majlis as opposition center was mounting effectiveness antigovernment activity such as Zohari interpellation and election Maki as controller BMI. Opposition was also successfully gaining control key Majlis committees. Serving accelerate these events and impel Mosadeq consolidate his position urgently was Eisenhower letter clarifying US policy toward Mosadeq Government. Letter served belie carefully nursed "myth" US supporting Mosadeq at same time USSR "friendship" overtures appear to be for moment at least nothing more than willingness adjust frontier problems. With bankruptcy foreign policy thus exposed Prime Minister faced Majlis interpellation this subject and exposure government's unauthorized increase note issue by Maki. Unable or disinclined resort to Shah's power dissolve Majlis Mosadeq struck upon expedient of

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[1] Repeated to London and Geneva for Ambassador Henderson.

mass resignation NMF deputies and announcement referendum.[2] Latter not provided for in constitution.

Despite Prime Minister's decreased popularity he still controls principal propaganda media including Radio Tehran as well as government apparatus and funds with which maneuver balloting or demonstrations his favor. Timing also important factor. By invoking memory July 21 uprising Prime Minister can play upon emotions his followers and upon fear his enemies. While opposition continues display courageous facade it appears incapable combatting Mosadeq in showdown struggle. It furthermore lacks leadership while Shah continues docile in hands Prime Minister.

Thus despite almost hopeless financial and economic situation and lack tangible prospects resolving country's problems in foreseeable future Mosadeq again demonstrating willingness disregard legalities and determination remain in power regardless of consequences. If he succeeds confirming dissolution Majlis through referendum as now seems probable establishment dictatorship will be complete with little remaining of outward democratic forms. Prime Minister will then be in position destroy remaining opposition leaving him in unchallenged and absolute control.

MATTISON

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[2] According to despatch 44 from Tehran, July 18, Mosadeq had not yet decided that he would conduct a referendum on the dissolution of the 17th Majlis, but, rather, that he would hold elections for a new and completely amenable Majlis. (788.00/7-1853)

No. 335

Eisenhower Library, Dulles papers, "Telephone Conversations"

Memorandum of Telephone Conversation, by the Secretary of State

[WASHINGTON,] July 24, 1953—10:55 a. m.

TELEPHONE CONVERSATION WITH ALLEN W. DULLES

The Secy called and said in your talk about Iran yesterday at the meeting[1] you did not mention the other matter, is it off? AWD said he doesn't talk about it, it was cleared directly with the President, and is still active.

The Secy asked if that relieved us of trying anything else, or if there was any alternative. AWD is getting up a paper,[2] a hint from the Department that we are deeply disturbed at the apparent acquiescence, etc. might help, there is sufficient evidence on the thing, he quoted a statement about the riots in which Mossadegh said you cannot crush the will of the people, look what happened in China.

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[1] Not further identified.

[2] A copy of this paper is in lot 58 D 776, "Iran 53-55."

His paper will be an outline of things that have happened and it would benefit the project if we express apprehension because he is leaning more and more on Tudeh. The Secretary remarked that he hasn't any other place to lean. AWD said it is moving along reasonably well but the young many [*man*] may pull out at the last minute, he is an unaccountable character but the sister has agreed to go.

No. 336

788.00/7-2553: Telegram

The Chargé in Iran (Mattison) to the Department of State[1]

SECRET TEHRAN, July 25, 1953—2 p. m.

163. Following is analysis current position Mosadeq Government:

1. Mosadeq unsure as yet how to exploit July 21 demonstrations.[2] Has not yet shown his hand. There are indications, however, that he not adverse to using demonstrations as means emphasizing Tudeh danger to Western world.

2. Mosadeq uncertain as to future course for number of reasons:

a. Eisenhower-Mosadeq exchange.
b. Continued absence Ambassador Henderson and uncertainty date return.
c. Fact that "negotiations" with USSR have not caused evidence alarm on our part, and have not so far produced any concrete result that could be publicly exploited.
d. Extreme Tudeh strength displayed at July 21 demonstrations.
e. Domestic economic ills.

3. There are indications that above factors (principally Eisenhower-Mosadeq exchange) have made some of Mosadeq's supporters hesitate and question to themselves whether they should continue support. There has been no open doubt expressed but hesitation is evident particularly among more moderate supporters.

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[1] Repeated to London and Salzburg for Ambassador Henderson.

[2] Chargé Mattison reported in telegram 142, July 22, that the Tudeh demonstrations the previous day were large and well-organized, and that the Tudeh masses displayed a high degree of discipline. (788.00/7-2253) The Embassy also transmitted a review of the demonstrations to the Department in despatch 56, July 24. (788.00/7-2453)

4. In belief, situation continues uncertain. If present trends persist over a period of time whereby each step Mosadeq takes gradually increases his dependence on Tudeh, results too obvious to need elaboration.

MATTISON

No. 337

Eisenhower Library, Dulles papers, "Telephone Conversations"

Memorandum of Telephone Conversation, by the Secretary of State

[WASHINGTON,] July 25, 1953—12:52 p. m.

CONVERSATION WITH FRANK WISNER

Mr. Wisner called with reference to the factual sheet that had been sent over on Iran[1] (AWD at Quantico) and wanted to know whether we needed anything by way of clarification? The Secretary said he had not been too sure why it was sent him, and Mr. Wisner said he understood it was the result of telephone conversation between the two Dulles' yesterday.[2]

He stressed that the statement is actually factual and would have quite an impact. The Secretary asked whether it was their idea that State or CIA put it out, and Wisner said whatever the Secretary wished. He planned to call Arthur Krock, but knew that he was also a friend of the Secretary's and thought he might like to do so.

The Secretary will look over the statement again and let Mr. Wisner know (Wisner is going to his farm at 2 p. m. but whoever is at his extension will be prepared to take it from there, he will have talked to Krock in the meantime).

He felt that if we got it out today it could be in the Monday morning papers.[3]

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[1] See footnote 2, Document 335.

[2] See Document 335.

[3] For a published version of this paper, see *Newsweek*, Aug. 10, 1953, p. 36.

No. 338

Eisenhower Library, Dulles papers, "Telephone Conversations"

Memorandum of Telephone Conversations, by the Secretary of State

[WASHINGTON,] July 28, 1953—9:08 a. m. and 10:10 a. m.

TELEPHONE CONVERSATIONS WITH ALLEN W. DULLES—IRAN

The Secretary telephoned his brother and asked if he wanted to bring this up at press conference.[1] AWD said he worked yesterday with State people on a draft. It has his enthusiastic approval as well as those on the other end.

The Secretary called him again and said the people here were not willing to go quite as far—do they know about this? Yes, Jernegan and Byroade both know about it.

The Secretary called his brother again about the wording of the statement "any further aid to Iran", what did it mean, increase or threat to cut it off entirely? AWD said that was the point of using the word, the Secretary thought it would be more tricky when translated, AWD defers to his judgment in the light of the Eisenhower letter.

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[1] Presumably a reference to Secretary Dulles' statement made later that day at a press conference; see *infra*.

No. 339

Editorial Note

Secretary Dulles held a press conference on July 28. In response to a reporter's question about the growing strength of the Tudeh Party in Iran, the Secretary replied as follows:

> "Recent developments in Iran, especially the growing activity of the illegal Communist party, which appears to be tolerated by the Iranian Government have caused us concern. These developments make it more difficult for the United States to give assistance to Iran so long as its government tolerates this sort of activity."

The text of the Secretary's statement is printed in Department of State *Bulletin*, August 10, 1953, page 178.

No. 340

611.88/8-1153

Memorandum of Conversation, by the Officer in Charge of Iranian Affairs (Stutesman)[1]

CONFIDENTIAL WASHINGTON, August 11, 1953.

Subject: Iranian Concern over Apparent Cooling Relations between Iran and the United States

Participants: The Iranian Ambassador
Mr. John D. Jernegan, NEA
Mr. John H. Stutesman, Jr., GTI

The Iranian Ambassador, at his request, called upon Mr. Jernegan at 11:30 a. m. August 11. He said that he was disturbed by the development of what appeared to him to be a somewhat unfriendly United States attitude toward Iran as evidenced by recent statements by the Secretary[2] and the President.[3] He discussed in some detail these statements and the political situation in Iran. He concluded by requesting that even though it might not be possible for the U.S. Government to give additional assistance to Iran, nevertheless he hoped that at least it would do nothing "injurious" to its relations with Iran.

Mr. Jernegan said that the U.S. Government seemed to face a dilemma in Iran. He recalled the President's statement that it would be hard for the United States to give additional aid to Iran when the Iranians do not utilize their own resources. He reviewed our attempts to settle the oil dispute and pointed out that there seemed to remain only the compensation question to be settled. Ambassador Saleh replied that we should not expect Mosadeq to "reward" the British for having been in Iran. He said that the United States must not stick upon the compensation question, which he seemed to feel would never be settled amicably between Mosadeq and the British, but should concentrate upon the larger question of preventing Iran from falling into communist hands. He offered, however, no other suggestions than giving additional United States aid to the Mosadeq government and making friendly gestures as often as possible.

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[1] Drafted by Stutesman on Aug. 13.

[2] See *supra.*

[3] According to telegram 312 to Tehran, Aug. 5, the press was carrying the text of a speech that President Eisenhower delivered in Seattle on Aug. 4 to the U.S. Governors, in which he said that Mosadeq had "moved toward getting rid of his parliament and of course he was in that move supported by the Communist party of Iran." (788.00/8-553)

No. 341

788.00/8-1253: Telegram

The Chargé in Iran (Mattison) to the Department of State[1]

SECRET PRIORITY TEHRAN, August 12, 1953—1 p. m.

300. Embassy estimate current Iranian situation follows:

1. With completion country-wide referendum organized on ground "popular will" above constitution,[2] Mosadeq will eliminate Majlis which aside from press last remaining forum for opposition. Action will graphically demonstrate truism of his regime that as opposition and discontent have mounted, Mosadeq has moved steadily in authoritarian direction using technique of mobocracy to maintain his hold on power and to eliminate influence Shah.[3] Embassy thinks following dissolution Majlis Mosadeq will clamp down in manner designed neutralize present open parliamentary opponents. Action taken by police in raiding and removing printing equipment of opposition newspaper could foreshadow procedures against any paper in future daring assail regime. Hence if opposition figures such as Kashani take religious asylum on issue declarations against Mosadeq, no means would be available in Iran for public to be informed.

2. While Mosadeq appears clearly embarked upon personal authoritarian rule, at same time he confronted with several internal weaknesses that could make his role progressively more difficult. Prime Minister's continued appeals to street, culminating in referendum, dangerous expedient which could boomerang against him. While he heads authoritarian regime, he lacks any real authoritarian organization aside from armed forces. Mosadeq may seek to utilize Tudeh machinery as partial compensation for this. It clear Prime Minister making careful play for Tudeh support. One small example illustrative in that he covertly authorized issuance at least forty passports to Tudeh members attend Bucharest Youth Congress. Non-Communist Government followers believed jarred despite their adherence Mosadeq, by US official statements of regimes association with Tudeh. As they increasingly realize truth

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[1] Transmitted in two sections; repeated to London and Beirut for Ambassador Henderson.

[2] According to despatch 99 from Tehran, Aug. 14, the voting returns from Mosadeq's referendum on the 17th Majlis in Tehran were nearly tabulated, with 166,607 favoring dissolution and 116 opposed. With 98 percent of the returns counted in the provinces, 2,350,000 favored dissolution and 700 opposed. (788.00/8-1453)

[3] The Embassy in Tehran reported on Aug. 15 that press sources were saying that Prime Minister Mosadeq sent a letter to the Shah requesting the issuance of a Royal Decree to commence elections to the 18th Majlis, since the 17th had been dissolved by the referendum. (Telegram 326; 788.00/8-1553)

this fact, become discomfited by American attitude toward regime and by Prime Minister's efforts associate with USSR, even if only for maneuver purposes, dissatisfaction could mount once again within government ranks. Embassy receiving reports that third force party in dispute over whether it should continue align itself with government in view latter's cooperative attitude toward Tudeh. Lastly, although this may be peering too far ahead under Iranian conditions, it difficult to see how Mosadeq could, even through most careful handpicking, evolve new Majlis which would remain completely subservient to him under all circumstances or at time when he might truly require its support. Example of Seventeenth Majlis election, when presumably only Mosadeq's supporters were to be selected as favored candidates, illustrative.

3. Although Iran's economic and financial situation continues deteriorate, several avenues are open which might enable government remedy situation on short-term basis. Government has thus far refrained from utilization gold reserves largely through fears opposition would be given effective weapon and adverse psychological effect on population as whole. With reinforcement Prime Minister's political position as result referendum, these fears lessened. However, government still inclined utilize gold only as last resort stave off acute financial crisis. Brightest spot in present situation is export prospects, particularly carpets, rice and barley. Government estimates exports may be increased as much as 50 percent by volume over last year, thus providing exchange necessary financing essential imports. Third factor which may ease situation is apparent Soviet willingness expand barter trade with Iran and make some concessions on Iran's financial claims against USSR. If USSR makes available some gold or dollars claimed by Iran, believe Government would have no hesitation utilizing these for current expenses. However, increased reliance on USSR would doubtless entail reciprocal concessions in political realm by Iran. Thus far, real financial pinch felt principally by salaried class, chiefly civil servants. Laboring class, as shown by spot strikes, increasingly affected. Government could by additional printing bank notes increase civil servants salaries and diminish inflationary effect this action by utilizing some of gold reserve for imports and increasing imports from USSR. If government fully exploits possibilities of utilizing gold reserves, increasing exports and expanding trade with USSR acute financial crisis may be averted for indeterminate period.

4. At present Mosadeq regime appears face future challenge from two potential sources: From split within itself over unforeseen future issues and from armed forces. Position of latter is imponderable as described service attaches estimate "control of armed forces

of Iran" (OARMA, Tehran M-175, August 10),[4] while Embassy believes for near future schismatic factors within regime may lack sufficient strength manifest themselves. Any tactic of potential opposition in boring from within regime would take some time. On this point, however, it should be emphasized that Tudeh has consistently followed this tactic with increasing success among Mosadeq's entourage.

5. Mosadeq has tried through suppression opposition to make reality of his theme to West that it must choose between him and Tudeh. It believed that deterioration of country, Tudeh infiltration state administration, and growth discontent at all levels population make this rationale untenable today. Embassy thinks under current conditions so long as security forces remain substantially unaffected by Tudeh infiltration, despite latter's program designed capture civil authority, that these forces, together with non-Communist elements in Iran, still could offer alternative to Mosadeq other than Tudeh Party.

MATTISON

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[4] Not found in Department of State files.

No. 342

788.00/8–1653: Telegram

The Chargé in Iran (Mattison) to the Department of State[1]

RESTRICTED NIACT TEHRAN, August 16, 1953—9 a. m.

331. At early hour this morning Embassy received reports of confusing nature to effect that Shah had issued decree removing Mosadeq as Prime Minister and that resultant activity had involved various troop movements and arrests in Tehran. At 7 a. m. Radio Tehran announced *coup d'etat* against Mosadeq government had been attempted last night and had been successfully thwarted by government. Information received by Embassy at about same time tended confirm fact government had situation under control.

ARMISH has been informed General Riahi, Chief of Staff, under orders Prime Minister has arrested three of five brigade commanders Tehran garrison and General Kiani, Assistant Chief of Staff. Meeting at Iranian officers club now in progress presided by General Riahi attended by general officers.

MATTISON

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[1] Repeated to London and Beirut for Ambassador Henderson.

No. 343

788.00/8-1653 Telegram

The Chargé in Iran (Mattison) to the Department of State[1]

RESTRICTED **NIACT** TEHRAN, August 16, 1953—10 a. m.

333. Embassy received unconfirmed report from good source Shah in dismissing Mosadeq issued royal decree appointing General Zahedi Prime Minister. Reports also received Acting Minister Court Amini and other court officials arrested this morning.

Up to 9:30 a. m. city appears calm, extra police on duty, with tanks and truck loads security forces around royal palaces and Prime Minister's residence. Embassy eyewitness reports seeing orderly crowd approximately 200 proceeding toward Baharestan Square waving Iranian flags.

Prime Minister's office phoned Embassy 8:45 a. m. advising Embassy and Point IV close as trouble expected. Appropriate instructions issued.

Rumors now prevalent and received by varied Embassy sources to effect alleged coup inspired by government. Reasoning behind this general impression is this action necessary give Mosadeq excuse move against Shah.

MATTISON

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[1] Repeated to London and Beirut for Ambassador Henderson.

No. 344

788.00/8-1653 Telegram

The Chargé in Iran (Mattison) to the Department of State[1]

RESTRICTED **NIACT** TEHRAN, August 16, 1953—3 p. m.

342. Late morning August 16, correspondents Donald Schwind, Associated Press, and Kenneth Love, *New York Times*, went to hills north of Tehran at request son of General Zahedi for conference. Zahedi not present, but son showed signed decree from Shah and gave photostats of it to newsmen.

Decree, signed by Shah, dated Thursday, August 13, 1953, said:

"View of fact situation of nation necessitates appointment of an informed and experienced man who can grasp affairs of country readily, I therefore, with knowledge I have of your ability and merit, appoint you with this letter Prime Minister. We give into your hands duty to improve affairs of the nation and remove present crisis and raise living standard of people."

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[1] Repeated to London and Beirut for Ambassador Henderson.

Zahedi's son said father naturally in hiding; that coup not intended; that Colonel Nasari went to Prime Minister's home this morning with soldiers to present this decree to Mosadeq and was arrested by guards.

Translator US Embassy, well acquainted with Shah's signature because previous employment, saw photostat and declared belief Shah's signature genuine.

MATTISON

No. 345

788.00/8-1753: Telegram

The Ambassador in Iraq (Berry) to the Department of State[1]

TOP SECRET PRIORITY BAGHDAD, August 17, 1953—7 a. m.

92. For Under Secretary—no distribution. Shah of Iran expressed to Iraqi Government desire to meet me.[2] In order to provide Department with first hand account of recent Iranian events as Shah sees them, and recalling his basic pro-western attitude and Department's policy of supporting him, I called quietly at 9:30 last evening at Iraqi official guest house where he is staying. I found Shah worn from three sleepless nights, puzzled by turn of events, but with no bitterness toward Americans . . . .

Shah stated that in recent weeks he had felt increasingly that he would have to take action against Mosadeq as the latter became bolder in flouting Iranian Constitution. Therefore, when a fortnight ago it was suggested that he sponsor a military coup he accepted the idea. However, in giving it more thought he decided that such action as he took must be within the framework of his constitutional power, hence, not a coup. Thus, . . . decided to appoint General Zahedi as Prime Minister in place of Mosadeq. After being assured that everything was arranged and that there was no possibility of failure, he left Tehran for his Caspian Palace in order to put Mosadeq off guard and from there three days ago sent letter of appointment of General Zahedi to Tehran with a trusted Iranian Colonel. The letter was delivered to General Zahedi and he was to choose the timing and method for informing Mosadeq. The Shah expected action would take place that very day. But no action took place, apparently because message arrived too late in day, and no action took place the following day, apparently because it was a holiday. On the third day Mosadeq by some means had been alerted and had had the time to take successful countermeasures so that when the Colonel arrived at Mosadeq's house he was himself arrested.

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[1] Repeated to Tehran.

[2] According to telegram 90 from Baghdad, Aug. 16, the Shah and Queen arrived in Baghdad that morning following the apparent failure of an army *coup d'etat* against the Mosadeq government. (788.11/8-1653)

This morning the Shah left his Caspian Palace in a Beechcraft with a pilot, one Palace official and his Queen and landed in Baghdad at 10:15. King Faisal returned from Jordan at 11:00. This afternoon the Shah called upon King Faisal and King Faisal returned the call, offering hospitality, but, lacking the supporting presence of his uncle who is in Cairo, seeming somewhat overpowered by events.

The Shah said that he will have to issue a statement very soon and possibly tomorrow. He needs, however, to be informed of the situation in Tehran . . . . He will try to hold off giving out a statement until he gets advice, but the pressure to issue is great and mounting. He is thinking of saying in his statement that three days ago he dismissed Prime Minister Mosadeq and appointed General Zahedi as Prime Minister, taking his action because Mosadeq had continually violated the constitution. As he himself had sworn, upon ascending the throne, to respect and uphold the constitution, he had no choice, but to remove the Prime Minister of a government acting unconstitutionally. When it was apparent that his orders were not being followed, he left the country to prevent bloodshed and further damage. He is ready to return when he can serve the Iranian people and in the meantime prays for the independence and safety of Iran and that all true Iranians will never allow their country to fall under the control of the illegal Tudeh Party.

The Shah said that he is utterly at loss to understand why the plan failed. Trusted Palace officials were completely sure of its succeeding. . . . Now he needs information and advice upon his next move. He said that he thought that he should not stay here more than a few days, but would then go to Europe and he hoped eventually to America. He added he would be looking for work shortly as he has a large family and very small means outside of Iran. I tried to boost his morale by saying that I hoped that soon he would return to reign over his people for whom he had done so much, but he replied that Mosadeq was absolutely mad and insanely jealous, like a tiger who springs upon any living thing that it sees moving above him. Shah believes Mosadeq thinks he can form a partnership with the Tudeh Party and then outwit it, but in so doing Mosadeq will become the Dr. Benes of Iran.

BERRY

No. 346

788.00/8-1853

Memorandum by the Under Secretary of State (Smith) to the President

TOP SECRET [WASHINGTON,] August 18, 1953.

The attached message[1] is self-explanatory and will give you the Iranian situation in a nutshell. The move failed because of three days of delay and vacillation by the Iranian generals concerned, during which time Mosadeq apparently found out all that was happening. Actually it was a *counter*-coup, as the Shah acted within his constitutional power in signing the firman replacing Mosadeq. The old boy wouldn't accept this and arrested the messenger and everybody else involved that he could get his hands on. We now have to take a whole new look at the Iranian situation and probably have to snuggle up to Mosadeq if we're going to save anything there. I daresay this means a little added difficulty with the British.

WBS

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[1] According to information on the source text, the message attached for the President's consideration was telegram 92, *supra*.

No. 347

788.00/8-1853 Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET NIACT TEHRAN, August 18, 1953—10 p. m.

384. 1. My talk with Mosadeq this evening lasted one hour. He received me fully dressed (not pajama clad) as though for ceremonial occasion. He was as usual courteous but I could detect in his attitude certain amount smoldering resentment. Usual exchange amenities after which I expressed sorrow at chain events since my departure over two months ago, adding I sorry see Iran apparently

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[1] Transmitted in three sections; repeated to London. Ambassador Henderson returned to Tehran on Aug. 17.

even worse off politically and economically than it was then. He acknowledged my statement with sarcastic smile and there lull in conversation.

2. I remarked I particularly concerned increasing number attacks on American citizens. After Shiraz incident he had issued instructions to law enforcement agencies which had afforded high degree protection to American nationals. Unfortunately law enforcement agencies appeared again to be becoming lax. Every hour or two I receiving additional reports attacks on American citizens not only in Tehran but also other localities.

3. He said these attacks almost inevitable. Iranian people thought Americans were disagreeing with them and, therefore, were attacking Americans. I said disagreements no reason for attacks. He replied Iran in throes revolution and in revolutionary stress and strain it would require three times as many police as exist to afford full protection to American citizens. I should remember that in American Revolutionary times when Americans wanted British out, many Britishers in US were attacked. I said if Iranians wanted Americans out individual attacks not necessary. We would go en masse. He said Iranian Government did not want Americans leave but some individual Iranians did and, therefore, were attacking them. I replied Chiefs of American military mission, American *gendarmérie* mission, and TCI had informed me today that Iranian officials with whom they dealt had assured them they were anxious that these missions continue to function in Iran. These missions could be assured of maximum cooperation from Iranian authorities. These chiefs had also told me that at no time had they been receiving more full and effective cooperation from Iranian authorities than at present. I had refrained from informing Washington of this situation until I could talk with him. I wanted to know what his present attitude was re these American aid missions and also re giving adequate protection to members these missions. It did not make sense for certain Iranian authorities to insist that these missions remain in Iran while members of these missions were subject to insults and attacks from gangs of hoodlums.

4. Prime Minister said he sure law enforcement agencies doing all possible give protection. I disagreed and read to him excerpts various memoranda which I had received from members American aid missions during course of day, some of which indicated that police were passive while they were being attacked. He said he wished assure me that he desired aid missions to stay. He thought they were performing valuable services and would look further into matter protection of their members.

5. After another lull I told him I would be grateful if he would tell me confidentially for use my government, just what had hap-

pened during recent days. US Government interested with respect both events and legal situation. He chose interpret my remarks as reference to President's letter to him last July. He reminded me that we had had agreement to effect existence these letters would be confidential and exchange would not be published unless US reply would be favorable. He maintained American officials either in Washington or in Tehran had directly or indirectly deliberately leaked information to pro-British Iranian press re this exchange and against his will US had insisted on publishing notes. He said he had actually never consented to their publication and was astonished to receive letter from Embassy expressing appreciation his willingness that exchange be published. When he saw US Government was determined to publish, he had finally insisted previous messages exchanged last January between him and President-elect be also published. I told him it had been my understanding leak had occurred in his office and in view distorted public version of President's letter unfavorable to US, US Government had thereupon insisted exchange be published. He denied heatedly Iranians had been guilty of leaks. No Iranian except himself and Saleh, US Embassy Iranian assistant and interpreter, had been aware of existence these letters. He had kept them among his own private papers, not in office files. I intimated I not sure his private papers were kept in manner which would prevent clever agents having access to them. I also pointed out there were certain modern hearing devices which might result in knowledge this kind falling into possession of agents parties hostile both to Iran and US. He continued insist certain Americans had deliberately leaked in order that public knowledge of contents of President's letter might weaken his government. I told him that I knew that exchange had been handled in US and Tehran in most discreet manner by trusted officials and I sure no US leak.

6. Mosadeq then outlined events which led to dissolution Majlis. His narrative in general line with information already furnished Department by Embassy. He maintained however that 30 members Majlis had been bought outright by British. Only 40 votes had not been bought. Ten of these 40 votes could easily have been purchased for 100,000 tomans and when he learned that negotiations were in progress to complete such purchasing operation he decided that British-purchased Majlis was unworthy of Iranian people and should be eliminated. He asked me if I had any comments to make regarding his dissolution Majlis.

7. I reminded him he inviting me comment on Iran internal affairs. I realized it not usual for comments of this kind to be offered by foreign diplomat. Nevertheless he would recall that during some of our past conversations I had overcome my scruples in this re-

spect. I said only comment which I wished to offer at this point was that it seemed to me unfortunate for Iran and no compliment Iranian people that Government of Iran apparently could not be based on a Parliament. Iran was in most dangerous international position and I thought it would be more secure if all organs provided for in Iranian constitution could be functioning with at least certain degree of harmony.

8. I told him I particularly interested in events recent days. I would like to know more about effort replace him by General Zahedi. He said on evening of 15th Col. Nasiri had approached his house apparently to arrest him. Col. Nasiri himself, however, had been arrested and number other arrests followed. He had taken oath not try to oust Shah and would have lived up this oath if Shah had not engaged in venture this kind. Clear Nasiri had been sent by Shah arrest him and Shah had been prompted by British.

9. I asked Mosadeq if he had reason believe it true Shah had issued firman (decree) removing him as Prime Minister and appointing Zahedi in his place. Mosadeq said he had never seen such decree and if he had it would have made no difference. His position for some time had been that Shah's powers were only of ceremonial character; that Shah had no right on his personal responsibility issue firman calling for change in government. I said I particularly interested in this point, and I would like to report it carefully to United States Government. Was I to understand (a) he had no official knowledge that Shah had issued firman removing him as Prime Minister, and (b) even if he should find that Shah had issued such firman in present circumstances he would consider it to be invalid? He replied "precisely".

10. Before departing I told Mosadeq that during 24 hours since my return Tehran, members American official family here had received intimations from various Iranian authorities which caused me believe some Iranian officials suspected Embassy harboring Iranian political refugees. I would like tell him point blank this untrue. My present policy in this respect was as follows: (a) if political refugees should endeavor to enter Embassy, efforts would be made to stop them; (b) if they should succeed in entering compound, efforts would be made to persuade them to leave voluntarily; (c) if they should refuse to leave voluntarily, it my intention to notify Iranian authorities that persons had taken refuge in Embassy and that I was telegraphing my government for instructions.

11. Mosadeq thanked me for my statement and said he would like add statement of his own. In case any Iranian political fugitives would take refuge in Embassy, he would like Embassy keep them there. I asked if in such event Iranian Government prepared defray expenses for lodging and food or whether he would expect

this to come out of Point IV funds. He said Iranian Government would be glad, despite limited budget, pay expenses these refugees.

12. Mosadeq seemed to be in much better frame of mind when I left him. Nevertheless, from his unusual reserve I inclined believe that he suspicious United States Government or at least United States officials either implicated in effort oust him or sympathetically aware of such effort in advance. His remarks to me were interspersed with number little jibes which, although semi-jocular in character, were, nevertheless, barbed. These jibes in general hinted that United States was conniving with British in effort remove him as Prime Minister. For instance, he remarked at one point national movement was determined remain in power in Iran and it would continue to hold on to last man, even though all its members would be run over by British and American tanks. When I raised my eyebrows at this remark, he laughed heartily.

13. Hope special care be taken prevent leaks contents this message.

HENDERSON

No. 348

788.00/8-2053 Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

CONFIDENTIAL NIACT TEHRAN, August 20, 1953—noon.

419. 1. Too early as yet to furnish precise detailed report of events last 36 hours. Nevertheless we shall attempt herein give preliminary outline assessing flow of events in light such knowledge at present available to us.

2. Evening August 18 break appeared to take place between Communist-controlled Tudeh and Mosadeq regime. Apparently Tudeh partisans began demonstrating on streets without having obtained usual appropriate clearance from Mosadeq and engaged in acts violence. Mosadeq ordered streets cleared and cessation of demonstrations. For first time in several months serious fighting took place between security forces and Tudeh.

3. Morning August 19 supporters Shah had arranged pro-Shah demonstration for purpose of showing sentiment continued exist in country for him. This demonstration began in small way in bazaar area but initial small flame found amazingly large amount combustible material and was soon roaring blaze which during course of

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[1] Transmitted in three sections; repeated to London, Rome, Dhahran, and Baghdad.

day swept through entire city. Security forces sent to put down demonstration refused to resort to violence against crowd some joining demonstrators and others remaining passive. As crowds increased in volume in various parts city they destroyed offices of those newspapers which during recent days had been most scurrilous in their attacks on Shah including most violently pro-government and pro-Communist organs. One of first strategic points seized was Office of Posts and Telegrams which was used in sending messages to stir up whole country. From center city huge crowds commandeered vehicles of all kinds and rushed northward engulfing Tehran Radio Station. Members of Embassy had good opportunity observing character these crowds at this time. They were primarily civilians interspersed with members Security Forces some of whom bore arms. Crowds however appeared to be led and directed by civilians rather than military. Participants not of hoodlum type customarily predominant in recent demonstrations in Tehran. They seemed to come from all classes of people including workers, clerks, shopkeepers, students, et cetera. Crowds seemed to be imbued with strange mixture resolution and gaiety. Holiday mood which seemed to prevail did not prevent execution of grim missions which on at least two occasions resulted in loss life. Defenders radio station failed to put it out commission. By early afternoon it was effective means of maintaining high morale of demonstrators and of transforming their enthusiasm.

4. In early part of day attacks made by demonstrators against House Prime Minister and against General Staff were repulsed with some loss life. Later in day, however, despite resistance defenders Prime Minister's house overrun and gutted. Apparently he had in meantime, escaped and gone into hiding. Shortly before night-fall General Staff offices fell into possession Zahedi Government[2] and General Batmanqilich assumed his duties as Chief of Staff. Almost simultaneously General Zahedi occupied desk in Prime Minister's office which had not been used by Mosadeq.

5. Considerable concern up to night-fall regarding what attitude commanders of military units in suburbs Tehran might take. Some fear lest under orders General Riahi Mosadeq's Chief of Staff they would descend on city during night and retake it on behalf Mosadeq. Also rumors afloat that Tudeh was preparing "show its hand" after public enthusiasm pro-Shah crowds had worn itself out and they had dispersed. When, however, Batmanqilich assumed duties Chief of Staff it would seem all army units in vicinity Tehran automatically began taking orders from him. It then became possible for orders to be issued clearing streets and proclamation 8 o'clock

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[2] The Zahedi government came to power the previous day, Aug. 19.

curfew. Since 8 p.m. last evening strict law and order has prevailed. Plans to arrest prominent members Tudeh party early this morning seem to have failed as result of inefficiency of police Tudeh reputed to be gathering for counterattack this morning. Security forces being assembled to thwart this counter move. Outcome this struggle extremely important for security city and future Iran.

6. At this moment no reliable news from provinces. Unconfirmed reports, however, would indicate most of Iran is at present under control of forces new government. According one report some resistance Isfahan. More information this respect will be included in subsequent factual telegrams.

7. Not only members Mosadeq regime but also pro-Shah supporters amazed at latter's comparatively speedy and easy initial victory which was achieved with high degree spontaneity. Among factors believed responsible for this are following:

a. Iranian people of all classes were disgusted at bad taste exhibited by anti-Shah elements supporting Mosadeq. For instance, they were outraged when gangs of hooligans bearing red flags and chanting Commie songs began tearing down statues of Shah and father, breaking into houses and shops for purpose destroying Shah's pictures, etc. They were repelled by vituperative language employed by Foreign Minister Fatemi and by Iranian newspaper editors in attacking Shah.

b. Iranian people of all classes in general also worried by what seemed to be at least temporary alliance between Mosadeq and Tudeh. They were alarmed at seeing thousands of Tudeh demonstrators whom they regard as agents Soviet Union marching openly arm-in-arm through streets denouncing Shah and Western countries particularly US. Tudeh clearly overplayed hand by causing Iranian people believe latter had to choose between Mosadeq and Soviet Union on one hand and Shah and Western world on other.

c. Iranian people had become thoroughly tired of stresses and strains of last two years. They yearned for period of quietness which would give them chance to improve their economic and social status. Many had lost hope of improving their conditions under Mosadeq.

d. Rupture which had taken place between Mosadeq regime and Tudeh on evening August 18 prevented effective cooperation on morning August 19 between these two anti-Shah forces in facing pro-Shah demonstrators. Tudeh was conspicuously absent all day. It possible that Tudeh leaders were sure that during course of day they would be called upon by Mosadeq regime come to its assistance. However, once demonstrations got underway Mosadeq regime not in position ask for such help.

e. Most armed forces and great numbers Iranian civilians inherently loyal to Shah whom they have been taught to believe is symbol of national unity as well as of stability of country. Army in particular extremely friendly US partly as result fear of strong northern neighbor and partly because of appreciation of US military aid during recent years. TCI aid also has made many friends for US among Iranian civilians. Many military persons and civilians had become convinced that Mosadeq's policies prevented close American-Iranian cooperation and that only under Shah's leadership could that cooperation be maintained.

8. As already pointed out crowds although intensely savage at times were generally in holiday mood. No hostility manifested towards foreigners with exception of minor demonstrations in front of Soviet Embassy and reported destruction Soviet Information Bureau. No shouts of "Yankee go home" no Americans stoned. Point Four Tehran Regional Office (not General Office) rear Mosadeq's house at which he had taken temporary refuge during demonstrations February 28 damaged by crowd under mistaken impression he might again be hiding here. So far as can be ascertained no Americans or other foreigners injured yesterday. Crowds insisted all autos turn on headlights as symbol support for Shah and that they display picture Shah. Naval attaché's car stopped by crowds which demanded he display Shah's picture. When he placed on windshield bank note containing Shah's picture crowds applauded and laughed.[3]

Henderson

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[3] The Department, in telegram 606 to Rome, Aug. 20, informed the Embassy that it was authorized to provide the Shah with the substance of telegram 419 from Tehran. (788.00/8-2053) According to telegram 571 from Rome, Aug. 18, the Shah arrived in Rome from Baghdad in the early afternoon of Aug. 18. (788.11/8-1853)

No. 349

Eisenhower Library, Eisenhower papers, Whitman file

Memorandum by the Acting Director of Central Intelligence (Cabell) to the President

SECRET [Washington,] undated.

An unexpectedly strong upsurge of popular and military reaction to Prime Minister Mossadeq's Government has resulted, according to late dispatches from Teheran, in the virtual occupation of that city by forces proclaiming their loyalty to the Shah, and to his appointed Prime Minister Zahedi.

Mossadeq and his Chief of Staff Riahi were reported still ensconced in their respective headquarters but cut off from communications which are in control of the royalist forces. The city appeared to be generally under control of royalist forces although some Mossadeq supporters were reportedly still on the streets. The royalists in Teheran were using the communications systems to urge the people and the Army to rise to the support of the Shah.

The strategic province of Azerbaijan according to radio dispatches originating from Tabriz is held by Royalists but Isfahan radio some two hundred miles south of Teheran has in a single brief announcement proclaimed itself loyal to Mossadeq.

In this confused situation it appears that the tone and content of the communiques is definitely anti-communist. Tudeh overt activity has been almost non-existent during the past critical hours. Should the royalists manage to take over, Tudeh will be their strongest and most violent opponent.

Our sources have confirmed press and radio reports that pro royalist forces in control of city of Teheran and that Zahedi has returned to city where he broadcast proclamations to the people promising a program of economic and social reforms. Our sources report huge crowds in streets of Teheran calling return of the Shah.[2]

C. P. Cabell

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[2] On the source text is the following handwritten comment: "DDE has seen 8-21-53 Ann C Whitman".

No. 350

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET NIACT TEHRAN, August 21, 1953—1 p.m.

434. 1. August 20 in Tehran and apparently throughout most provinces opened in atmosphere relative calm. Population country apparently taking it for granted issue between Shah and Mosadeq finally settled and in general pleased with outcome. Nevertheless, in those circles more fully conversant situation there still certain amount uneasiness. Although Zahedi Government in control practically all country, it difficult believe Tudeh would accept new situation without counterblow. So long as Tudeh with its tough disciplined organization under leaders trained in revolutionary tactics and in propaganda methods remained intact, it dangerous enemy not to be ignored. Plans to arrest in early hours yesterday known Tudeh leaders miscarried. Chief of Political Police blamed for failure claiming they had gone underground. Suspicion exists, however, that he like many other Iranian officials preferred not to take

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[1] Transmitted in two sections; repeated to London and Baghdad.

action which would put him at top Tudeh black list. Fear that whoever has backing Iran's powerful northern neighbor would under laws political gravity eventually come into power too often renders successful execution clear cut measures eliminate subversive Communist elements difficult.

2. Another factor contribution to uneasiness was that most dangerous Nationalist leaders still at large. Mosadeq, Fatemi, Shayegan, Hassibi and others might well be plotting with leaders Tudeh. Fact Fatemi still alive despite rumors August 19 his death especially discouraging since he considered most cunning and unscrupulous of those around Mosadeq. It believed he in spirit vengeance would not hesitate help in forging working alliance of Nationalists and Tudeh against West.

3. Batmanqilich invited General McClure Chief ARMISH call on him yesterday. Latter found him, like various other military leaders, worried re army. As of yesterday morning practically no changes had been made in General Staff other than removal Riahi, former chief. Riahi and General Mohana former Under Secretary Ministry Defense were under restraint occupying room next to Chief Staff in headquarters where they could be easily reached for advice and information re developments. They being treated with courtesy and consideration. Kiani, Deputy Chief Staff under Riahi who had chosen support Mosadeq continued to function until late afternoon. New Chief Staff not sure loyalty to new regime chief sections. Section heads exceptionally able officers who had been selected by Riahi. Their immediate dismissal would render it impossible General Staff function effectively and would create deep rift in army at time unity extremely important. On other hand, danger could not be ignored yesterday morning that if counter *coup d'etat* could suddenly eliminate Batmanqilich, Riahi would merely need step across corridor to his former office and General Staff would be composed same personnel as those who had supported Mosadeq against Shah. Chief Staff although good field commander can not be regarded as first class desk operator. McClure found him harried and uncertain. He said he would like retain staff almost intact, but did not know how make sure loyalty its members.

He apparently hoping for speedy return Shah whose presence he thought might strengthen loyalty officers. . . . Amini yesterday in discussing situation in General Staff most critical, described it as chaotic.

3. [*sic*] During course yesterday situation improved considerably at least on surface. Fears aroused that Tudeh planning to make surprise counterattack proved unfounded. If Tudeh really had such plan it foiled by police precautions which did not permit gathering large crowds. Similar rumors prevalent today. Security Forces very

much in evidence in more crowded sections city. Confirmation Riahi under detention and arrest during course yesterday of Mosadeq and Shayegan contributed increased confidence in future government. Certain changes also effected during yesterday and last night in military personnel. Riahi and Kiani reported moved from General Staff and sent to prison. Amini removed from position chief *gendarmerie* replaced by Golpira, a reliable *gendarmerie* officer. It understood further shifts and arrests in military personnel will be made in near future. Situation re Qashqais still not satisfactory. Reported that *gendarmerie* personnel in Firuzabad being disarmed by Qashqais. Reports from provinces received during course day also encouraging. It would appear attitude spontaneous joy prevails in larger cities and throughout countryside as that which marked overthrow Mosadeq's regime in Tehran.

4. Zahedi apparently functioning quite satisfactorily. He exudes confidence and is making quite good progress in restoring orderly government although somewhat handicapped by floods of well-wishing visitors including retired army officers confident that jobs now await them. Towards midday he announced he no longer able receive congratulatory visits and he now concentrating on problems connected with formation Cabinet and filling other important positions.

5. Various rumors during course yesterday re return Shah. Differences opinion exist in government circles re best time his return. Understood Zahedi would like to make sure his ability prevent disorders in Tehran before Shah makes entry. He hoped Tehran could be prepared receive Shah no later than August 23. Practically every auto in city continues carry pictures Shah and to keep headlights on as sign of support for him. During course of day numerous informal celebrations throughout town.

6. Suggest Baghdad may use this telegram give Shah additional information re control Zahedi Government of country.[2] He should not be informed re other passages.

HENDERSON

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[2] In telegram 613 from Rome, Aug. 20, the Embassy informed the Department and the Embassies in Tehran and Baghdad that the Shah was scheduled to depart Rome for Baghdad around midnight Rome time, arriving in Baghdad about noon on Aug. 21. (788.11/8-2053) Ambassador Henderson informed the Department in telegram 454, Aug. 22, that he and the other chiefs of diplomatic missions met the Shah at the Tehran airport late in the morning of Aug. 22. (788.00/8-2253)

No. 351

788.00/8–2153: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET NIACT TEHRAN, August 21, 1953—2 p. m.

436. 1. Unfortunately impression becoming rather widespread that in some way or other this Embassy or at least US Government has contributed with funds and technical assistance to overthrow Mosadeq and establish Zahedi Government. Iranians unable believe any important political development can take place in country without foreigners being involved. Intensive propaganda in Tudeh newspapers prior to their disappearance and over Soviet Radio that US Embassy working for Shah and Zahedi against Mosadeq has helped create this impression. Public, therefore, in general, inclined interpret various incidents or remarks as evidence American intervention. For instance, fact member American Embassy staff happened to be living in same compound in which Zahedi understood to have taken refuge has been interpreted to mean that this American was harboring Zahedi even though Iranian landlord who also resides in this compound is also being given the credit for protecting Zahedi. Remarks by associates of Zahedi to effect Iran deeply indebted to Americans for success their efforts also being given deeper meaning than intended. Undoubtedly during struggle between forces Shah and Mosadeq considerable sums were expended by both sides. Iranians living up to their old traditions have tendency credit foreigners with financing side which they supposed to be favoring.

2. For moment at least more praise than criticism heard from those who believe US involved in shift of government. Nevertheless we doing utmost discreetly to remove this impression because (a) it not in US interest over long run to be given credit for internal political developments in Iran even if those developments might be to Iran's advantage; (b) Zahedi's Government will be somewhat handicapped if impression continues that it creature foreigners; (c) Zahedi's Government like all governments of Iran eventually will become unpopular and at that time US might be blamed for its existence. We do not believe, however, that it would serve any good purpose for Embassy to make formal denials.

3. We do not believe it would serve any useful purpose as far as Iran is concerned for Department to deny US intervention unless it receives inquiries of character which would render such denial de-

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[1] Repeated to London.

sirable. It might be useful, however, if spokesman for Department could find suitable occasion stress in factual way spontaneity of movement in Iran in favor of new Government, touching upon some factors which according to reports received from various sources responsible for what has happened. In making these suggestions I realize perhaps charges already made over Soviet Radio are of character which cannot be ignored. Denial these charges would of course give Department one such occasion. We sincerely hope means can be found either through US Government channels or through private American news dissemination channels for American and world publics to understand that victory of Shah was result will Iranian people. Such comments in this respect as are made by Department or private news agencies could be immediately useful here if disseminated by means USIA news bulletin and over VOA.

HENDERSON

No. 352

S/P–NSC files, lot 61 D 167, "Iran: US Policy Regarding the Present Situation, NSC 136, 136/1"

Memorandum by the Assistant Secretary of State for Near Eastern, South Asian, and African Affairs (Byroade) to the Director of the Policy Planning Staff (Bowie)[1]

[Extracts]

SECRET WASHINGTON, August 21, 1953.

Subject: Iran

Problem

A. How will the Iranian situation be affected by the recent change of government?

B. What attitude should the United States take toward the Zahedi government?

Discussion

A revolution is in progress in Iran. It has deep-rooted origins in the wave of nationalism sweeping Asia. The old pattern of rule has been irrevocably shattered and any leader must shape his program on the basis of nationalist aspirations.

The replacement of Dr. Mosadeq by General Zahedi is not a reversal of this trend. It is still too early accurately to appraise the stability or character of the Zahedi government. However, his experience as an officer under the ultra-nationalist Shah Reza, his resistance to British and Soviet policies during the war which led to his internment by the British, and his close identification with Mosadeq's National Front from 1949 to 1952, support assumptions that he will be at least as nationalistic in outlook as was Dr. Mosadeq.

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[1] Drafted by Stutesman and approved by Richards.

In addition to Zahedi's personal credo, there are other forces in the Iranian situation which make it most unlikely that General Zahedi will reverse his predecessor's policies to any major extent. He is reputed to be a realistic man who can recognize a need to cooperate with the West in order to obtain revenue from sales of Iranian oil. If he is indeed realistic he will also recognize that any early indication that he hopes to come to terms with the British on compensation would invite assassination. Prime Minister Razmara was killed the day after he took a decision to force a settlement with the British. Qavam was overthrown primarily because it was popularly believed that he intended to roll back the achievements of Mosadeq's nationalists. General Zahedi will have to move very carefully to create an atmosphere in which he can move towards cooperation with the West without any appearance of sacrificing objectives which are cherished by the Iranian people as a result of over two years of Mosadeq propaganda and an abiding national belief that the British are responsible for the country's misery.

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In summary, there is no case for jubilation that our problems are ended in Iran. On the contrary, the future can be expected to bear remarkable similarity to the recent past.

Conclusions

A. The United States Government should be prepared to move rapidly if requested in making substantial economic aid funds to the Zahedi government in addition to those already contemplated.

B. This additional economic aid should be in the amount of approximately $37 million during the first year and should come from Mutual Security funds available for FY 1954.

C. Zahedi should not be pressed at this time to enter into discussions regarding the oil dispute nor to make anything more than a most innocuous statement which might serve to counter-balance the position taken in President Eisenhower's letter of June 29.

D. Planning with the British and with major United States oil companies regarding the type of oil settlement which might eventually be made should be commenced at an early date.

No. 353

788.11/8-2353: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET NIACT TEHRAN, August 23, 1953—10 p. m.

466. At Shah's request that I visit him privately without publicity, I saw him six o'clock this evening. Pirnia, master of ceremonies, who met me rear entrance Palace, said I would find Shah changed man. He was right. Shah showed vigor, decisiveness and certain amount clear thinking which I had not found in him before. Only time will determine whether this change merely temporary result discovery that people of country had deeper sense of loyalty him than he had realized. In any event, I did not find hesitation, brooding, discouragement and air "what can I do" which I had noticed practically all previous conversations.

2. He greeted me warmly and expressed deep appreciation of friendship which US had shown him and Iran during period. I read oral message from President to which I had taken liberty of adding introductory paragraph as follows: "I congratulate you for the great moral courage which you displayed at a critical time in your country's history. I am convinced that by your action you contributed much to the preservation of the independence and to the future prosperity of Iran."[2] The Shah wept as I read this message and asked me in reply to tell the President how grateful he was for interest which President and Government of US had shown in Iran. He would always feel deeply indebted for this proof of genuine friendship. Miracle of saving Iran which had just been wrought was due to friendship West, to patriotism Iranian people and to intermediation God. It impossible for him believe so many factors could have contributed simultaneously to this salvation his country unless Providence had so willed.

3. Shah dwelt for some time on part which "common people of Iran" had played. People of poorest classes who were ill-clad and hungry had been willing sacrifice their lives on his behalf. He could never forget this and he would never be satisfied until hunger had been eliminated from his country. Iran had been saved

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[1] Transmitted in two sections; repeated to London.

[2] No copy of this oral message from the President has been found in Department of State files. According to telegram 922 to London, however, Henderson was authorized on Aug. 22 to give the Shah a short oral message from the President. (788.11/8-2353) Henderson also suggested in telegram 462, Aug. 23, that, in addition to the President issuing a public message of congratulation, he, Henderson, should be authorized to convey privately and orally a message from the President to the Shah on his recent success. (788.11/8-2353)

but victory would be short-lived unless substantial aid came from US immediately. No time could be lost. This was Iran's last chance to survive as an independent country. I said I agreed that if present government should fail, Communism seemed to be only alternative. He said "if I fail, no alternative but Communism. People have shown their trust in me and it rests upon me prove their trust merited. I must help new government live up to expectations and I cannot do that without quick aid from the US. How soon can this aid come and in what quantities and form?"

4. I replied US prepared extend aid but it must be given in orderly way and in circumstances which would be acceptable US public as well as Iranian public. I had been endeavoring all day to get in touch with financial and economic experts new government in order begin conversations. If he wished quick aid, he should take steps see that conversations begin immediately. He promised talk to Zahedi this evening in effort accelerate.

5. Shah said he not completely happy re Cabinet which Zahedi had presented him on his arrival. Same old faces which had been rotating in office for years. He had hoped for Cabinet which would stimulate country particularly youth. He had been told Americans had insisted Amini be included as Minister Finance and that Cabinet be selected before his arrival and presented to him as *fait accompli*. I told him information incorrect.

I do not know who had selected Amini. Certainly not Americans. There had been feeling in Embassy that Cabinet should be formed quickly so Government could begin to function earliest possible moment, no idea endeavoring have members selected without consultation with him. He said he relieved hear me say this. He sure Americans would not begin trying interfere in personnel matters of Government. They should know from experience this would be surest way change friendship into suspicion. Particularly important no interference in future in his control armed forces. Neither foreigners nor Iranians should come between him and army. Razmara had been unsuccessful in trying to separate army from Shah. Mosadeq had been able to break down army unity. It was his task and it would be difficult and delicate one to rebuild army as solid block loyal to him. Otherwise there would be no stability in country.

6. I asked if I to infer he dissatisfied with way Zahedi had been conducting affairs or if he under impression Zahedi attempting exert authority which should be vested in him. He replied negative insisting he had complete confidence in Zahedi. He did not believe Zahedi had ambitions other than serve Iran and its Shah, nevertheless he thought that certain advisers around Zahedi were pressing latter to take actions without proper consultation with him. He

had had several discussions with Zahedi and was sure that he had achieved understanding with him re extent consultation in future.

I said Zahedi and many other army officers had risked their lives for Shah and country. I hoped Shah would show in some way his appreciation. He said he intended to do so but he must disappoint many retired army officers expecting resume active service. Most of them outmoded, some corrupt. He could give them decorations and other awards but not jobs.

7. In discussing failure of plans on night of August 15 he said someone must have betrayed them. Could it have been British agents?

I expressed surprise. I pointed out on various previous conversations he had said if Iran to be saved necessary for British and Americans to have common policy re Iran and work with mutual confidence. This situation had been achieved and I hoped he would never again make either to British or Americans remarks which might tend undermine that mutual confidence. I knew for fact that British were dealing honestly with him and he should get out of his head once for all idea they engaging in double dealing. He said he relieved hear this and believed me. I told him Communists espionage facilities well developed. They had many dangerous hearing devices. He said perhaps they had broken down code telegrams exchanged between Tehran and Ramsar. I agreed this quite possible.

8. I said if Iran wanted British and US pursue common policy re Iran Government should not expect receive substantial aid from US while it was making British whipping boy. I worried lest when Majlis reassembled there would again take place long tirades against British. I also concerned re Tudeh press in this respect. He said he would endeavor arrange for those members Majlis who had not resigned to meet and vote dissolution Majlis. Elections would then be held in spring so Government could accomplish much without interference Majlis. It was his intention also not to convene Senate until new Majlis elected. He intended taking steps also to reward in some way although not with Cabinet positions small band Majlis members who had at risk lives refused resign. It also his intention completely root out subversive press. He determined completely wreck Tudeh organization while at same time maintaining as correct relations as possible with USSR.[3]

9. In terminating conversation he again urged me impress on US Government importance receiving substantial and immediate fi-

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[3] The Embassy in London informed the Department and Tehran on Aug. 26 that Lord Salisbury, Acting Foreign Secretary in Eden's absence, requested the Embassy to express to the Department and Ambassador Henderson its appreciation for the position that the Ambassador had taken in paragraphs 7 and 8. (Telegram 816; 788.11/8-2653)

nancial and economic aid. In absence Majlis it would be difficult arrange for loan. Therefore most of this aid must be in form grant. I said if this true we might be severely hampered in our efforts. For instance it might be easier quickly to obtain funds for road building and similar programs through loans rather than grants. He promised look into legal aspects this problem but said he feared it might be impossible for Iranian Government to accept loans without consent Majlis.

HENDERSON

No. 354

788.00/8-2453

Memorandum by the Assistant Secretary of State for Near Eastern, South Asian, and African Affairs (Byroade) to the Acting Secretary of State[1]

SECRET WASHINGTON, August 24, 1953.

Subject: Message from President to Shah of Iran

Discussion:

Tehran's telegram 461, August 23,[2] informs the Department that has been suggested by the Iranian Chief of Protocol that it would be appropriate for heads of state to send public congratulatory messages to the Shah of Iran. Ambassador Henderson agrees that such a message should be sent. Other diplomatic representatives in Tehran are advising their governments accordingly.

Recommendation:

It is recommended that the President's approval of a public congratulatory message be obtained. A draft of such a message along the lines suggested by Ambassador Henderson is attached.

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[1] Drafted by Richards.

[2] Not printed. (788.00/8-2353)

[Attachment]

Draft of Message From the President to the Shah[3]

WASHINGTON, [August 24, 1953.]

In the spirit of friendliness which has always been the basis for the relations of our two countries, I offer you my sincere felicitations on the occasion of your happy return to your country, and my continuing good wishes for every success in your efforts to promote the prosperity of your people and to preserve the independence of Iran.[4]

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[3] This message was sent under cover of a memorandum from Acting Secretary Smith to the White House on Aug. 24 for transmission to the President, who was out of the city.

[4] The Department informed Ambassador Henderson on Aug. 26 that the President authorized him to deliver this message verbatim to the Shah, and that the text was being made available to the press on Aug. 27. (Telegram 619; 788.11/8-2653) Ambassador Henderson informed the Department on Aug. 28 that he delivered the President's message to the Shah the previous evening. (Telegram 510; 788.11/8-2853)

No. 355

[illegible]

Memorandum of Conversation, by the Assistant Secretary of State for Near Eastern, South Asian, and African Affairs (Byroade)

SECRET WASHINGTON, August 25, 1953.

Subject: Conversation this morning regarding Iran.

Participants: Mr. Harold Beeley, British Embassy
Henry A. Byroade—NEA

I told Beeley of the US plans for some immediate financial and economic assistance to Iran. I explained that we expected that our President would shortly receive a letter from either the Shah or General Zahedi requesting assistance for Iran. It was our present plan that we would answer such a request affirmatively.[1] We did

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[1] On Aug. 21 Ambassador Henderson informed the Department that the Zahedi government planned to approach the Embassy almost immediately to request urgent American financial and economic aid, which Henderson deemed necessary if the new government was to continue functioning. (Telegram 447; 788.5 MSP/8-2253)

The Department responded on Aug. 24, informing the Ambassador that the United States was prepared to respond to an Iranian request for financial and economic aid and was sending a special economic analyst to Iran to confer with Embas-

Continued

not believe that we could press the Iranians at this time to be specific in their letter to the President as regards a pledge to settle the oil dispute with Britain. We hoped, however, that the letter would contain general assurances of the desire of the new Iranian Government to settle outstanding differences with friendly powers.

I explained to Beeley that our economists thought that the total amount of economic assistance to Iran over a period of a year would run about $60 million. We had already planned about $24 million which would continue through the present level of Point IV and development activities at the last year level—which corresponds to the intentions recently stated by our President to Mossadeq. We believed an additional sum in the neighborhood of $36 million would probably be required to keep the new Government going for a year if no oil revenues were forthcoming. I told Beeley that the exact details, publicity, etc. had not yet been worked out, but that I would keep in touch with him.

I stated to Beeley that I had not consulted him sooner as it had been my impression that as a result of conversations between us over the past year I felt that the British Government was aware of the fact that we would consider it necessary to provide some immediate assistance should a government come into power which appeared to offer a better chance of allowing settlement of Iran's disputes with the West.

Mr. Beeley said he had himself always understood this to be the case and he was certain that the British Government had the same understanding. He stated that he had just received a cable from London inquiring as to our intentions. In his cable the only concern of the Foreign Office was that the US not offer such huge amount of money as to take away the incentive of the Iranian Government to arrive at an oil settlement. In the opinion of the Foreign Office sums in the order of $100 million to $200 million might produce such a lack of incentive. Beeley stated he felt certain that the Foreign Office would have no objection whatsoever to the US plans I had given him—on the contrary he felt that they would be pleased.

Mr. Beeley stated he knew that people were working over-time in London on the dual problems of re-establishment of diplomatic relations and the UK approach to an oil settlement. He stated that he believed he could present the British position to me within two days. I informed Mr. Beeley that we were looking into the problem

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sy officials and prepare plans for prompt assistance. (Telegram 399; 788.5 MSP/8–2253)

The final text of Zahedi's letter to the President, dated Aug. 26, was transmitted in telegram 488 from Tehran, Aug. 26. (611.88/8–2653) ourselves and would greatly appreciate their views as soon as they became available.[2]

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[2] No record has been found in Department of State files of another session shortly thereafter with representatives of the British Embassy. The Embassy in London, however, informed the Department in telegram 905, Aug. 29, that it had the impression that Prime Minister Churchill was anxious to make some gesture that might allow for the resumption of Anglo-Iranian relations; that the Foreign Office recognized the seriousness of the Iranian situation and the probability that if Zahedi were to survive he would need financial assistance; and that, consequently, the Foreign Office favored U.S. interim emergency aid, provided that it was not so much as to lessen Iran's incentive to settle the oil dispute. (888.2553/8-2953)

No. 356

The Ambassador in the United Kingdom (Aldrich) to the Department of State[1]

SECRET LONDON, August 25, 1953—7 p. m.

793. When I called on Salisbury this afternoon he handed me an *aide-memoire* the text of which reads as follows:

"Her Majesty's Government would be most grateful if the United States Ambassador in Tehran could be instructed to pass the following personal and private message to the Shah from Sir Winston Churchill:

> "'I salute and congratulate Your Majesty on your safe return to your country. May I express the sincere hope that success will now attend your efforts to guide Persia towards those better things which you have always so ardently desired for her.'"[3]

ALDRICH

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[1] Sent to Tehran as telegram 11 and repeated to the Department.

[2] On Aug. 22 Ambassador Henderson suggested that it might be useful for Queen Elizabeth II or Prime Minister Churchill to send an oral message of congratulations to the Shah through American channels. (Telegram 462; 788.11/8-2253)

[3] On Aug. 28 Ambassador Henderson reported that he read Churchill's message to the Shah the previous evening. The Shah was deeply moved and asked Henderson to convey in confidence the following personal and private message in reply:

"I deeply appreciate your friendly message of congratulation and good wishes which fortify me in meeting the difficult tasks ahead. May I take this occasion to congratulate you on your return to active duty and to express my hope that your health will continue to improve." (Telegram 506; 788.11/8-2853)

No. 357

611.88/8–2753: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET PRIORITY TEHRAN, August 27, 1953—10 a. m.

497. 1. I talked for hour with new Prime Minister Zahedi. His son interpreted. I again congratulated him and wished him success and he again expressed appreciation of US moral support. He said success in rescuing Iran on very brink Communist abyss would be only temporary unless Iranian people could be convinced that new government had something offer them. He must begin acting immediately. For instance he hoped within week put hundred thousand to work on roads which in deplorable condition. Also necessary begin construction immediately thousands houses Tehran and elsewhere for people now without shelter. People tired of promises. Action necessary. He needed US financial assistance since his government not only bankrupt but indebted. Mosadeq had been spending money people had entrusted to banks, insurance companies, et cetera. He could not understand what Mosadeq had had in mind. Latter must have realized he leading country down dead end financial alley. He hoped US aid would not be too late and too little. Iranian people willing work hard; after years frustration and economic chaos they needed stimulus in form action.

2. I told Prime Minister I sure US Government would extend aid but it must be in orderly fashion in accord US laws. US Government not in possession enormous amount funds which it could spend freely. US aid in quantity and form must therefore be in framework existing legislation. Prime Minister asked if I could give him idea of amount. I replied negative. I thought it would be sufficient see Iran through present crisis but doubted it would be enough defray costs grandiose projects for employment workers on mass scale. Prime Minister said government intended certain radical reforms re taxes et cetera, but it would take time realize benefits. He referred in passing to oil problem. Said he was thinking of explaining Iran's bankrupt conditions to country and hoping reaction would be requests from people themselves to try settle this problem. Much of course would depend on attitude British. I did not consider occasion appropriate to endeavor press Prime Minister this regard.

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[1] Also sent to London.

3. Prime Minister touched on projected exchange of letters with President re additional US aid. Our conversation this regard already outlined in Embtel 487, August 26.[2]

4. During our talk we also touched on field foreign affairs. Prime Minister said Soviet Ambassador had protested anti-Soviet demonstrations on August 19 and attacks on Soviet information center. He making effort smooth matters over by sending assurances to Ambassador new government desired maintain friendly relations with its neighbors including USSR. Prime Minister said he would not slow up his campaign root out Communists mainly to appease Soviet Union. I remarked I glad he desired improve relations with Iran's neighbors. I thought it particularly important Iran take energetic steps strengthen friendly relations with Pakistan, Iraq, Turkey and Afghanistan. I sure he would find reciprocal attitude friendliness on part these countries. He agreed. I said also it imperative that in due course diplomatic relations of friendly character be established with UK. He also agreed. I described my conversation re Iran's positions re US desire Iran support UN on Korean question[3] with Meftah on August 24 and with Shah August 25. I said I somewhat disappointed at Shah's hesitation in matter. It seemed to me that time had come for Iran to play kind of role in international affairs which would be commensurate with Iran's international importance. I said I did not infer that Iran should take provocative attitude re Soviet bloc. Nevertheless if Iran would come out unostentatiously but unequivocally and firmly in support of efforts promote collective security and discourage aggression, Iran's international prestige would be greatly strengthened. Furthermore I thought Iranian people themselves would be stimulated and their self respect increased if they had government which did not hesitate take firm stand when accepted principles of international intercourse were at stake. Prime Minister said my views were in accord with his own and that he hoped to be able clarify Iran's foreign policies. He had asked Entezam and Meftah to discuss with him during course of day foreign policy problems facing Iran Government at present time. He needed help of experienced diplomat like Entezam and therefore intended using him informally until Minister Foreign Affairs could be selected.

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[2] Not printed. (788.5 MSP/8-2653) The text of the Eisenhower-Zahedi exchange, Aug. 26, is in Department of State *Bulletin*, Sept. 14, 1953, p. 349. Zahedi asked for assistance for Iran in its current economic and financial crises. Eisenhower replied that he would immediately send a representative to assist Ambassador Henderson in this matter.

[3] Presumably a reference to the Political Conference on Korea in the wake of the Armistice signed in July 1953. For documentation, see volume XVI.

5. I found Prime Minister physically vigorous and mentally alert. He is clearly activist who if given wise guidance and not frustrated by Shah could do much to extricate Iran from its present political and economic morass. He exhibited a sensitivity to foreign and internal political matters rather surprising in a person with his limited background.

HENDERSON

No. 358

Eisenhower Library, Eisenhower papers, Whitman file

Memorandum of Discussion at the 160th Meeting of the National Security Council, Washington, August 27, 1953[1]

TOP SECRET EYES ONLY

Present at the 160th Meeting of the Council were the Vice President of the United States, presiding; the Secretary of State; the Acting Secretary of Defense; the Acting Director, Foreign Operations Administration; the Director, Office of Defense Mobilization. Also present were the Secretary of the Treasury; the Acting Director, Bureau of the Budget; the Chairman, Atomic Energy Commission; the Chairman, Joint Chiefs of Staff; the Chief of Staff, U.S. Army; the Chief of Naval Operations; the Chief of Staff, U.S. Air Force; the Commandant, U.S. Marine Corps; Robert R. Bowie, Department of State; Frank C. Nash, Department of Defense; General Gerhart, Joint Chiefs of Staff; Robert Amory, Jr., Central Intelligence Agency; the [*Acting*] Director of Central Intelligence; Robert Cutler, Special Assistant to the President; C. D. Jackson, Special Assistant to the President; the Acting White House Staff Secretary; the Executive Secretary, NSC; and the Deputy Executive Secretary, NSC.

There follows a summary of the discussion at the meeting and the chief points taken.

[Here follows discussion of items 1 and 2.]

3. The Situation in Iran (NSC 136/1; NSC Actions Nos. 875-b and 766-a)[2]

General Cabell briefed the Council on the most recent developments in Iran. He said that General Zahedi appeared to be estab-

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[1] Drafted by Gleason on Aug. 28.

[2] For text of NSC 136/1, see Document 240. The text of NSC Action No. 875, adopted at the 158th meeting of the National Security Council on Aug. 6, and the text of NSC Action No. 766, adopted at the 140th meeting of the National Security Council

Continued

lishing a moderate nationalist government. There was real hope for its stability and for improvement in Iran's economic and financial situation. Members of the new government were as experienced and capable as one could anticipate in Iran, although the Shah had expressed disappointment at the small number of new faces in the Cabinet. Indications are that General Zahedi will oppose the indiscriminate imposition of martial law, and when his control is firmly established he is expected to recall the Majlis. Elections for a new Majlis are to be anticipated thereafter. The army will doubtless manipulate these elections to ensure a conservative majority in the new Parliament.

General Cabell predicted that the Tudeh Party would be ruthlessly curbed, with the result that it would probably go underground. Its leadership is still intact, and it may be expected to work with the pro-Mossadegh factions to discredit the Shah and the new regime.

The allegiance of the tribes, said General Cabell, is not yet completely clear, but the fact that they have never been able to work in concert with one another minimizes the dangers which Zahedi must anticipate from the tribes.

General Cabell stated that the most urgent problems confronting the new government of Iran are economic and financial. It is unlikely that an agreement with Britain, to settle the oil controversy, can be readily and quickly achieved, if for no other reason than that General Zahedi cannot afford to seem a British stooge. However, concluded General Cabell, if United States financial aid can be promptly extended, Iran will again assume its place in the pro-Western grouping of nations and American relations with Iran will improve. Relations between Iran and Great Britain are not likely to undergo any sudden change, and a settlement of the outstanding issues between the Soviet Union and Iran is unlikely at present.

Secretary Dulles commented that while what happened in Iran was spontaneous, he did feel obliged to say that a number of people

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on Apr. 22, are in S/S-NSC (Miscellaneous) files, lot 66 D 95, "Record of Actions by the NSC, 1953".

NSC Action No. 875-b reads as follows:

"Noted the President's request that the Attorney General, with the assistance of other appropriate departments and agencies, seek to develop a solution which would protect the interests of the free world in the Near East as a vital source of petroleum supplies."

NSC Action No. 766-a reads as follows:

"Concurred in the statement which the Attorney General proposed to make to the court with respect to termination of the Grand Jury proceedings in the so-called oil cartel case, institution of a civil action under the anti-trust laws, and constitution of a committee drawn from governmental departments and agencies to screen evidence and segregate from public disclosure evidence with national security implications."

in Iran had kept their heads and maintained their courage when the situation looked very tough. . . .

As a result of what had happened, Secretary Dulles informed the Council, the United States now had a "second chance" in Iran when all hope of avoiding a Communist Iran appeared to have vanished. Secretary Dulles said that there had been an exchange of letters between the President and General Zahedi. Secretary Dulles summarized General Zahedi's letter, pointing out the latter's statement that he desired to reconsider the problem of the oil settlement and that he needed assistance. The President had replied that General Zahedi's request would receive sympathetic consideration. Secretary Dulles went on to point out that in order to assist the new regime, the Administration would require funds beyond those programmed in the Mutual Security Act. The additional funds would probably be in the neighborhood of $35 million. The most difficult problem confronting us was how to develop revenues for Iran out of her oil. We can't very well subsidize Iranian oil when we can't make full use of present resources available to us. Since we must not, however, miss this second chance, Secretary Dulles suggested that we ought to select quickly an individual knowledgeable in the petroleum field, and a skillful negotiator, and then turn over to him full power to negotiate a settlement. In order to pick such a man quickly and get him started, Secretary Dulles recommended that the choice be entrusted to a committee consisting of himself, the Secretary of the Treasury, the Secretary of Defense, and Mr. Stassen.

Mr. Cutler inquired whether such an individual would be a special representative of the President. Secretary Dulles replied that he could represent the President or the Secretary of State. In any case, he would head up a task force. The main thing is to assure that all the manifold ideas for achieving a settlement should channel through this individual.

Secretary Dulles' proposal was well received by the Council, and CIA asked to be included in the committee if its representation thereon appeared useful.

Mr. Cutler then reminded the members of the Council of the task which it had asked the Attorney General to perform, noted that Judge Barnes had been appointed by the Attorney General to carry out this task, and that Judge Barnes was planning a committee of three individuals to perform the task. Mr. Cutler stated that Judge Barnes had already produced a tentative statement of the problem to which his committee should address itself. Mr. Cutler further pointed out the relationship between Judge Barnes' assignment and the committee which had been contemplated in NSC 138/1,[3] which, of course, had never materialized. Mr. Cutler assured the members of the Council that Judge Barnes would consult with the heads of appropriate departments and agencies before completing his report, which he hoped to have ready by December.

Secretary Dulles inquired whether any new consideration was now being given to postponing the civil suit against the so-called oil cartel. As he understood it, open hearings on the case were scheduled to begin in September, and while he sympathized with the problem confronting the Attorney General, to whom was entrusted the task of carrying out the law of the land, he was still very worried over the implications of this suit for the national security and for our foreign relations. It would be highly advantageous, said Secretary Dulles, if the case could possibly be settled out of court.

Secretary Humphrey expressed emphatic agreement with Secretary Dulles, and inquired whether this assignment should be added to that contemplated by the special representative.

Secretary Dulles expressed doubts as to the feasibility of Secretary Humphrey's proposal, but again insisted that the civil proceedings should be postponed if it was humanly possible.

Mr. Cutler suggested that the Council invite the Attorney General to come to the next meeting of the Council to hear the arguments and to discuss possible postponement of the suit.[4] It developed that the Attorney General would be out of town except for one day this week, and Mr. Cutler therefore suggested that the Secretary of State get in touch with the Attorney General and explain to him the Council's unanimous feeling that, for reasons of national security, it favored postponement of the civil suit.

The National Security Council:[5]

a. Discussed the situation in Iran in the light of an oral briefing by the Acting Director of Central Intelligence on developments, and in the light of an oral report by the Secretary of State on actions taken or contemplated with respect to the situation.

b. Agreed that the Secretaries of State, the Treasury, and Defense, the Director of the Foreign Operations Administration, and the Director of Central Intelligence, should nominate, for the President's consideration, an individual to act as special representative of the United States to deal with problems related to an Anglo-Iranian oil settlement.

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[3] For text, see vol. IX, Part 1, p. 637.

[4] According to the memorandum of discussion at the 161st meeting of the National Security Council on Sept. 9, the Attorney General was not present and the subject was not discussed. (Eisenhower Library, Eisenhower papers, Whitman file)

[5] Paragraphs a-d and note constitute NSC Action No. 891. (S/S-NSC (Miscellaneous) files, lot 66 D 95, "Record of Actions by the NSC, 1953")

c. Noted an oral report by Mr. Cutler regarding the status of the Attorney General's study of the Near East oil situation pursuant to NSC Action No. 875-b.

d. Agreed, with the concurrence of the Attorney General, to recommend to the President that in the interests of national security, in view of the Iranian situation, the Attorney General be requested to conduct proceedings in the so-called oil cartel civil suit, now being carried on as indicated in NSC Action No. 766-a, with due regard for their effect upon United States foreign relations.

Note: The action in b above subsequently referred to the Secretaries of State, the Treasury, and Defense, the Director of the Foreign Operations Administration, and the Director of Central Intelligence, for implementation. The recommendation in d above subsequently approved by the President and transmitted to the Attorney General for appropriate action.

[Here follow discussion of items 4-7, the situation in French Morocco; the programs affecting escapees, refugees, and defectors; the consideration of a report by the President's committee on international information activities; and a brief statement on armaments and American policy.]

S. Everett Gleason

No. 359

888.00 TA/8-3153: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET PRIORITY TEHRAN, August 31, 1953—7 p. m.

534. 1. Warne and I accompanied by Paul called on Prime Minister this morning to discuss various aid problems.

2. Re publication exchange letters between President and Zahedi we said it had been our idea withhold publication until we had more definite information re amount aid which in addition Point IV aid might be available. We had feared that publication matter might give rise to speculation in press and otherwise re amount aid to be given; that public expectation would be unduly aroused; and that when it was learned how much aid could be given, result would be disappointment. Delay in publication letters however appeared to be resulting in uneasiness among Iranians that US might be hesitating to grant aid and might not have decided give support Zahedi Government. We therefore wondering whether it would not be advisable have exchange published within next day or two. Ira-

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[1] Repeated to London. Passed to FOA.

nian Government might be able make some announcement or take some other steps to prevent false hopes being aroused re amount. We know US Government was making special effort to find funds for rendering such aid. Nevertheless in view reduced aid funds made available by Congress, US Government would probably not be able give as much at this time as it would like and as Iran really needed. Prime Minister said he agreed announcement of exchange of letters should not be delayed much longer. He would discuss matter with Shah and let us know whether Shah was agreeable to publication. We said we would like at least 36 hours notice so letters could be released simultaneously in Washington and Tehran. We also made certain informal suggestion as to statements which government might make when issuing announcement which would tend prevent Iranian hopes from becoming too extravagant.[2]

3. Exchange of letters re TCI aid: We told Prime Minister we prepared exchange letters with him at once re extension TCI aid to Iran during present fiscal year (Deptel 640, August 28[3]). Early exchange would be advisable so that Iranian and TCI experts could begin at once drawing up programs. We would leave it to Prime Minister to decide whether it would be preferable for this exchange to be published almost immediately after publication of exchange between President and Prime Minister or whether publication might be delayed until we able announce amount aid which might be extended in addition to TCI aid. Prime Minister said he would prefer have this exchange published as soon as possible after effected in order show Iranian public both US and Iran losing no time in solving aid problems. He would order Radji, deputy chief planning organization, who was acquainted with exchanges this kind to meet Warne this afternoon in order review drafts.[4]

4. Prime Minister again expressed confidence US realized desperate need Iran for financial assistance sufficient not only to meet budgetary needs but to enable government to engage in immediate

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[2] On Aug. 31 the Department informed Henderson that rumors were spreading in Washington that Iran requested assistance from the United States, and that no answer was forthcoming. To stop these rumors, the Department instructed Henderson to try to secure Iranian agreement to release of the letters exchanged between the President and Prime Minister as soon as possible. (Telegram 665; 888.00 TA/8-3153)

Ambassador Henderson replied on Sept. 3 that the correspondence had been released to the press in Tehran on Sept. 2. (Telegram 576; 888.00 TA/9-353) The texts are printed in Department of State *Bulletin*, Sept. 14, 1953, p. 349.

[3] Not printed. (888.00 TA/8-2853)

[4] The agreement, dated Sept. 3, provided $23.4 million in technical and economic aid to Iran during fiscal year 1954; see Department of State *Bulletin*, Sept. 14, 1953, p. 350. On Sept. 5, President Eisenhower made available an additional $45 million in emergency assistance to Iran; see *ibid.*

impact program which would cause masses of country to believe government's promises were not mere empty words.

HENDERSON

No. 360

888.2553/8-3153 Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET PRIORITY TEHRAN, August 31, 1953—7 p. m.

535. During my private talk today with Zahedi (Embtel 533, August 31 repeated London 156)[2] I said I doubted such assistance as US might be able on emergency basis extend Iran would be sufficient in quantity to carry Iran further than about April 1, if indeed it could carry Iran that long. No time should be lost therefore, in giving consideration to some kind oil settlement with UK so that Iran would have certain amount income from oil to use in rehabilitation programs. I said I was without instructions in this regard and had no specific suggestions to make. Nevertheless it seemed to me it would be helpful, both to British and Iranians, if some secret explorations could take place for purpose of ascertaining whether agreement in principle at least could be found re manner in which the oil problem might be settled. It would be difficult for US Government to continue to defend to US Congress and people extension financial and economic aid to Iran except on emergency basis unless Iran Government would show itself prepared to come to agreement with British re oil in accord with accepted principles international intercourse.

2. Prime Minister said he understood this. He hoped be able find settlement oil problem on basis which would be fair to both UK and Iran. It would be suicidal, however, for him to move too fast in this matter. He thought if proper secrecy was maintained it might be useful for each side learn something about views of other re settlement. He understood British had innate sense of fairness. If they were willing to accept solution of kind which in their hearts they knew would be fair to Iran and which could not place undue burden on Iranian people, they would find him receptive. If they took attitude of driving hard bargain, it would not be so easy for him. He hoped both US and UK would understand that his government would be overthrown immediately by resentful Iranian public if he should enter into agreement which Iranian public would con-

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[1] Repeated to London.

[2] Not printed. (788.21/8-3153)

sider betrayal of Iranian interests. Even if his government should manage to survive for a time after concluding such agreement some future government would undoubtedly disavow it.

3. I told Prime Minister that I thought attempt should be made to reach agreement just as soon as Iranian public opinion could be prepared, even though there might not be Majlis in session to ratify it for several months. Early conclusion of agreement might result in relaxation of tension between UK and Iran and might even render possible taking of steps to prepare refinery for immediate production. Every month oil industry idle represented further drain on Iran. In this connection I expressed hope he would take immediate necessary measures to stop anti-British propaganda in Iranian press and over radio. Propaganda this kind merely served make settlement more difficult. Its continuance also embarrassing to US Government. US public would not be enthusiastic re rendering aid to government which was countenancing propaganda against US ally.

4. Prime Minister said he had already issued orders forbidding insulting propaganda against any foreign government, including even that of Soviet Union. Iran needed friends in world and it was stupid for Iranian press and radio to follow line which would make enemies. He hoped I would understand he personally not anti-British. He had worked against British in early part Second World War and had been imprisoned by them. He had however no hard feelings. He had worked against British, not because they were British, but because they were associates and allies of Soviet Union, Iran's most dangerous and implacable enemy. He considered ally of Soviet Union to be *ipso facto* enemy of Iran, and foe of Soviet Union friend of Iran. When UK ceased to be ally of Soviet Union he ceased to regard British as enemies. He would like to see UK and Iran on friendly terms and was prepared in due course to do his part to bring this about.[3]

HENDERSON

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[3] Ambassador Henderson reported on Sept. 3 that during a conversation with the Shah on Sept. 1 regarding the oil problem, the Shah said he and Zahedi had been discussing whether it would be better to try to settle the problem in the relatively near future or postpone it, what would be the best substantive approach, and what channels should be used. The Shah believed that it was preferable not to postpone a settlement too long and asked Henderson's opinion. Henderson thought it would probably be unwise to postpone a settlement for too long, as he doubted the U.S. Government would be able to extend economic or financial aid to Iran except on the present emergency basis if Iran failed to make a conscientious effort to find a reasonable and fair solution to the oil problem. Henderson asked the Shah if he had any plans to reestablish diplomatic relations with the British. The Shah thought it might be unwise to do so until after the signing of an oil agreement. Henderson observed that it might be difficult to negotiate an oil settlement in the absence of diplomatic relations. The Shah reiterated the thought that it might be better to postpone reestablishing relations until after the negotiation of an oil settlement. (Telegram 567; 788.00/9–353)

No. 361

661.88/9-153: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET TEHRAN, September 1, 1953—noon.

539. 1. During my talk yesterday with Prime Minister Zahedi (Embtel 536, London 159, August 31)[2] he said he wished to keep me informed re developments Iran-Soviet relations. He was approached recently on behalf Soviet Embassy with inquiry re policy new government re Soviet Union. His reply Iran wishes maintain normal friendly relations with Soviet Union. These relations possible on condition (a) Soviet Union refrain from interfering in Iranian internal affairs, particularly in giving material and moral support to Tudeh and other subversive organizations; (b) Soviet Union treat Iran as equal in all matters, refraining from making open or impolite threats; (c) relations between two countries be maintained on basis mutual advantage.

2. Prime Minister said Razmara when Prime Minister and also Mosadeq had been ostentatious in negotiations re various relatively unimportant matters with Soviet Union. They had puffed up to false proportions such routine arrangements as they were making or negotiating with Soviet Union. It necessary for Iran maintain correct relations with its largest neighbor possessing common border more than 1600 miles long. He had given orders, therefore, that negotiations for trade agreements with Soviet Union continue at "appropriate levels", which would mean discussions between officials in various interested ministries and Soviet representatives. These negotiations were proceeding. If successful, Iran would sell Soviet Union certain commodities of which it had surplus and would buy from Soviet Union commodities which it could purchase there more advantageously than elsewhere. He had no intention selling Soviet Union or any Iron Curtain country strategic materials. It not in interest Iran engage in traffic which would strengthen Soviet military power. If I should hear of trafficking between Iran and Iron Curtain countries of commodities which US considered as strategic character he would appreciate it if I would tell him.

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[1] Also sent to London and Moscow.

[2] Not printed. (788.00/8-3153)

3. I told Prime Minister I grateful for his frank statement. I sure US Government would understand his position and respect it. US did not wish Iran follow policy re Soviet Union which would justifiably be considered provocative or unfriendly. I thought previous Prime Ministers had made tactical error in endeavoring to make it appear relations between Iran and Soviet Union more friendly than they really were. Deceit this kind served strengthen subversive elements in Iran. I also thought some previous Iranian governments had made error in thinking it to Iran's advantage try to "play off US and Soviet Union against each other". Such efforts only too transparent and merely caused diminution both in Soviet Union and US respect Iranian sincerity. Furthermore, tactics this kind create resentment in the US where it gave impression Iran considered that US and Soviet Union had similar ambitions of aggressive or at least selfish nature re Iran, and Iran was therefore protecting itself by playing each against other. Intelligent Iranians knew US desired nothing from Iran other than that latter maintain its independence and improve its economic position.

4. Prime Minister said I could be sure, so long as he Prime Minister, his government would not indulge in childish game of trying play US and Soviet Union against each other.

5. Prime Minister must have mentioned our conversation at cabinet meeting later in evening. In any event member cabinet telephoned me last night to ask if US considered lead ore strategic material.

HENDERSON

No. 362

788.00/9-253

British Memorandum[1]

TOP SECRET 2 SEPTEMBER 1953.

PERSIA

POLITICAL REVIEW OF THE RECENT CRISIS

Phase I.

1. The following is a narrative of the circumstances which culminated in the events of the 19th-21st August.

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[1] No information is available in Department of State files regarding the British Government source of this document. In form, however, it resembles documentation originating either with the Foreign Office in London or the British Embassy in

Continued

2. On 11th July the text of the letters exchanged between Dr. Musaddiq and President Eisenhower was published in the Persian press. Political circles in Teheran considered the President's reply as the final word of the U.S.A. in the oil dispute and American Embassy officials claimed that it had been drafted after careful consideration of the consequences involved, including the probable drift of Dr. Musaddiq into the Soviet camp.

3. On 20th July, General Zahidi, who had been in sanctuary in the Majlis during the previous two months, left the Majlis premises after receiving an assurance from the government that he would not be molested, as long as he did not indulge in anti-government activities.

4. By 25th July, General Zahidi's whereabouts were unknown, and it was rumoured that he was in hiding. Reliable reports indicated that he was secretly in touch with the Shah and the American Embassy. It was widely believed that the U.S. Government favoured the overthrow of Dr. Musaddiq's government.

5. On 26th July Mr. Henderson, the American Ambassador, who was in Europe on holiday was visited by Mr. Melbourne the Chief of the Political department of the American Embassy in Teheran. There were many rumours to the effect that the American Embassy favoured General Zahidi as successor to Dr. Musaddiq, while the Shah, who did not repose much confidence in Zahidi, preferred someone else.

6. On 27th July it was reported that Princess Ashraf's visit to Teheran was connected with certain activities behind the scenes.

7. Mr. Dulles' statement at his press conference on the 29th July that he was concerned about growing communist activities in Iran, was regarded in Teheran as a warning to Dr. Musaddiq to stop flirting with the Tudeh and Soviet Russia.

8. Certain personalities who are in very close contact with the Shah were reported to have stated on the 3rd August that the Shah had declared that great changes would take place shortly. It was believed that General Schwartzkopf, former American adviser to the Persian *Gendarmerie*, who had an audience with the Shah, had discussed with him the full details of a military *coup d'etat*.

9. Government circles showed great apprehension at President Eisenhower's statement of August 4th to the effect that he would take the necessary steps to stop Persia going behind the Iron Curtain.[2]

Washington. Furthermore, there is no information in Department files as to how or when this memorandum was transmitted to the Department of State. Byroade's initial, inscribed by Byroade himself, appears in the upper right margin of the source text.

[2] See footnote 3, Document 340.

10. On the 8th August the Tudeh press declared that a military *coup d'etat* was being planned by the Shah.

11. According to reports received on the 9th August, secret meetings were taking place between the Shah, General Zahidi and certain American Embassy officials.

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12. On 11th August, the Shah and the Queen left for Ramsar, on the Caspian Sea, for a holiday.

13. On 13th August the Shah issued a firman dismissing Dr. Musaddiq and appointed General Zahidi Prime Minister. This firman was secretly conveyed from Ramsar to Teheran by Colonel Nasiri, Commander of the Imperial Guard.

14. On the 14th August the Tudeh press published further details about the suspected military *coup d'etat*. It was widely rumoured in Teheran that the Tudeh Party was supplying the Prime Minister with information on the movements of army units. The Prime Minister was reported to have issued instructions to the general staff to take measures for countering the coup.

15. Late on the evening of the 15th August, Colonel Nasiri went to the house of the Prime Minister and delivered a copy of the Royal firman to the officer in charge of the troops defending Dr. Musaddiq's house. As soon as he left the house he was arrested.

It seems that the plan was for the Imperial Guards to occupy the general staff and Police headquarters, the radio station and other important centres at the same time that the firman was being delivered to Dr. Musaddiq's house. Something went wrong, and the plan failed. It was believed that junior officers in the Guards Regiment, who had Tudeh sympathies, disrupted the plan.

16. On the 16th August the Government announced the failure of the *coup d'etat*. Mass meetings were held demanding the establishment of a republic. Soon after the radio had broadcast that the *coup d'etat* had failed, the Shah and the Queen left Ramsar for Baghdad.

Phase II

1. On the 17th August crowds of Tudeh and other government supporters smashed and pulled down four statues of the Shah's father, which stood in public squares of Teheran. A statue of the present Shah erected in the public park was also overturned. In all government offices photographs of the Shah were pulled down and trampled on. The same thing happened in the provinces. Youths, mostly Tudeh followers, roamed the city streets shouting "Death to the Shah", and "End the dynasty". The pro-government and Tudeh press published editorials demanding the establishment of a repub-

lic, and claimed that the Shah was no longer monarch because he had fled the country. Dr. Fatimi, the Minister of Foreign Affairs, published under his own signature a most venomous and scurrilous article against the Shah in his newspaper *Bakhtar-E-Imrouz*.

2. The Government spokesman announced that Persia had requested Iraq to take the necessary steps to avoid any incident between two friendly and neighbouring countries. He also stated that the Persian Ambassador and his staff in Baghdad had been instructed to avoid all contact with the Shah.

3. Dr. Musaddiq and his National Front advisers were in conference all day to find a solution to the difficulties which had arisen. Tudeh Party leaders were urging Dr. Musaddiq to issue a decree stating that the monarchy had ended in Persia, and had been replaced by a republic. They assured him that he would be elected as the first president of the Persian republic. It was learned that Dr. Musaddiq was opposed to this suggestion, and that for the time being, he favoured the establishment of a Regency Council, composed of three of his nominees. He proposed that, after appointment of the Council, a second referendum should be held to obtain public confirmation of this action. Throughout the day emissaries went back and forth between the Tudeh and the Prime Minister to reconcile these two views. In the end a compromise was found, under which a Regency Council was to be established at once, and a third referendum was to be held later to establish the "Will of the people" regarding the republic.

The Government spokesman announced that no change of regime was contemplated by the government, but that a council or other appropriate body would have to be established in order to carry out the duties of the Shah who had deserted the country.

4. The Opposition press published photographs of the Royal Firman which appointed General Zahidi Prime Minister, and stated that in the absence of the Majlis, the Shah was the sole authority empowered to dismiss and appoint Prime Ministers. Therefore, Dr. Musaddiq's government was no longer lawful and should be considered as in rebellion against the legal government of the country.

5. It was learned on the 17th August that General Zahidi had succeeded in winning over the commander of the motorised regiment as well as the Chief of Police. It was also established that a second attempt would shortly be made to overthrow Musaddiq's government.

6. Mr. Henderson, the American Ambassador, arrived in Teheran.

7. On the 18th August, hundreds of Tudeh demonstrators paraded the streets and demanding the establishment of a "Democratic Republic."

Tudeh leaders warned Musaddiq that a second military coup was in preparation to overthrow his government. They asked him to supply them with 10,000 rifles and small arms, so that they could defend his government. In reply Dr. Musaddiq asked for more details, which apparently the Tudeh were not in a position to supply.

The Shah and the Queen left Baghdad for Rome, and the pro-government press continued to state that his departure from the country amounted to his abdication. It was learned that the Shah's departure from Baghdad had relieved government circles to some extent, because they feared that he might have gone to Tabriz and started a movement against the central government from there.

Dr. Musaddiq and his advisers were busy throughout the 18 August putting the final touches to the inauguration of the Regency Council, and arranging details for holding the second referendum.

Mr. Henderson called on the Prime Minister during the afternoon . . . . Their meeting ended abruptly.

According to well placed sources, it was soon after this that the plans for the events of the 19th of August were put into operation. On this occasion only the commanders of regiments, the Chief of Police, and Ayatullah Bihbihani, who was responsible for organizing demonstrations, knew of the plan, and the Tudeh had therefore no chance of discovering the plot beforehand.

8. About 8 a.m. on the 19th August a crowd of about 3,000 men armed with clubs and sticks started an anti-Musaddiq and pro-Shah demonstration in the Southern part of the town. They roamed through the streets shouting "Long Live the Shah" and "Death to Musaddiq the traitor". Most of these men although possibly inspired by royalist sentiments, had obviously been hired for the purpose; among them there were a large number of unemployed persons and many well-known hooligans. About the same time, the Chief of Police issued orders that demonstrators should not be interfered with.

Part of the crowd proceeded to the bazaar, and threatened to loot the shops. The effect was instantaneous, and the bazaars were closed. The crowd grew as time went on and a large number of well-to-do people, who resented Musaddiq's government and specially his recent pro-Tudeh policy, joined the demonstrators. A large number of lorries and busses, hired early in the morning, then appeared on the scene and provided demonstrators with free transport. These vehicles then roamed through the town, and their occupants shouted slogans, and began a war of nerves to arouse emotions in favour of the Shah.

It soon became evident that the whole police force was showing sympathy for the demonstrators, and that police officers were in some cases directing the movement of demonstrators. Dr. Musaddiq at once dismissed the Chief of Police and ordered that he should be arrested. He also instructed the army to send tanks and armoured cars to disperse the crowds. Naturally, the orders issued by the general staff were not obeyed immediately, and when they were carried out a few hours later, soldiers arriving on the scene were easily persuaded by the crowds to join them in defence of the Shah.

Between 9 and 12.00 a.m. the headquarters of three pro-government political parties, and offices of half a dozen newspapers supporting Dr. Musaddiq were ransacked by demonstrators and set on fire. The crowd then attacked the offices of the Tudeh newspapers, where they met some resistance, which was soon overcome.

Truckloads of soldiers, armoured cars and tanks were dispersed throughout the town by lunch time, and in certain instances fire was opened on the crowd. In most cases however troops joined the demonstrators.

At 2.30 p.m. the radio station was captured by General Zahidi's followers, and the speaker announced that the rising had been successful, that Dr. Fatimi had been torn to pieces, that all government offices had been captured, and that Dr. Musaddiq had fled. (These false reports had an immediate effect throughout the capital and the country and demoralised supporters of the government who might have wished to resist.) The announcer then read the Royal Firman appointing General Zahidi Prime Minister. A little later General Zahidi spoke over the radio and announced the programme of his government.

Between 2.30 and 3.30 General Staff Headquarters, and other government offices were captured without much resistance. By 4 p.m. General Zahidi was master of the situation, and had established his headquarters at the Central Police Office. Then came the attack on Dr. Musaddiq's house. At first, a large crowd attacked his residence, but were driven back by machine-gun fire, and many people were killed and wounded. A second attack supported by pro-Zahidi troops also failed. By this time heavy Sherman tanks arrived on the scene, and started bombarding the house. About 6 p.m. the defence of the house was given up, and the gate was broken down. The crowd then entered the house, looted all its contents and set fire to it. The house of Dr. Musaddiq's son, which is situated next door, was treated in a similar manner. In the evening all political prisoners were set free and General Zahidi assumed power.

It was reported that at 10.00 a.m. Dr. Musaddiq had telephoned his Tudeh friends and expressed his willingness to supply them with arms; but they declined the offer and said that it came too late.

It is widely believed that the success of the coup was due to the fact that it was well planned, that it was kept secret, and that plenty of money was made available to carry it out.

9. Throughout the 20th August, General Zahidi was consolidating his position, and selecting his colleagues to serve in the cabinet. He announced that all army officers placed on the retired list by Dr. Musaddiq could apply to the General Staff for reinstatement.

Dr. Musaddiq, Dr. Shayegan, Dr. Sadiqi and Mr. Moazzami who had fled from Dr. Musaddiq's house and had taken refuge in a nearby house on the previous day were discovered and arrested. Orders were issued for the arrest of all National Front leaders. Dr. Musaddiq and his three colleagues were taken to the Officers Club for detention. All those officers who carried out Dr. Musaddiq's orders yesterday were arrested. It is estimated that over 50 persons were killed on the 19th August and that 300 were wounded.

10. *The Shah*

The Shah returned to Teheran on the 22nd August and was met at the airport by members of the government, senior army officers, and members of the diplomatic corps. He drove from the airport to his Summer Palace escorted by armoured cars and tanks. In the evening he broadcast to the nation thanking them for their support and for their valiant rising in defence of the independence of the country, which he said was gravely endangered. He added that he would gladly give his life for the people who had shown such magnificent loyalty, and pledged himself to serve the nation. He concluded by saying that all those who had violated the Constitution would shortly be brought to trial.

General opinion was that recent events had again confirmed that the monarchy was still popular in Persia, because of its historic traditions. It was considered to be the symbol of national independence and sovereignty and the bulwark against communism. The future popularity of the Shah was generally agreed to be dependent on whether he acted as a strict constitutional monarch, or whether he resorted to his previous practices, which had made him so unpopular in recent years. It should not be forgotten that measures adopted by Dr. Musaddiq to restrict the Shah's interference in the army had the universal support of the people, and that any future infringement of the Constitution by the Shah would be met by the opposition of all progressive elements in the country.

11. *The Majlis*

It was learned that the government considered the dissolution of the Majlis and the recent referendum as invalid and that they proposed to hold elections in the constituencies which did not elect members of the 17th Majlis and which could return 57 members. This number together with the 23 members who had not resigned would provide the necessary quorum for the Majlis to meet.

The members of the Senate also claimed that the dissolution of their house, carried out by Dr. Musaddiq, was invalid. (This is however a controversial question, which does not seem to have much popular support.)

12. *The Oil Dispute*

In reply to a question put to him by Mullah Kashani, General Zahidi stated that he did not propose to pay any compensation and that he was not in favour of the A.I.O.C. returning to Iran.

At a press conference, General Zahidi said that the most urgent problem for Persia was the introduction of internal reforms; the settlement of the oil problem must come afterwards.

It was believed, however, that these statements should not be taken as official commitments, as they were primarily designed to calm down public anxiety. It was taken for granted that the settlement of the oil dispute would be one of the first problems to be tackled by any government. However, everybody agreed that no useful purpose would be served by initiating any discussions until the government had undone the previous government's propaganda and removed past misrepresentations. A healthy and calm atmosphere was required before reasonable discussions and negotiations could take place.

13. *Perso-American Relations*

The general feeling in Teheran among influential people was one of jubilation that the U.S.A. should have come to the country's rescue when Dr. Musaddiq was about to deliver it to the Tudeh Party. There was general agreement that, were it not for America's assistance and guidance, its financial contribution, and its encouragement to the Shah to withstand further humiliation, the plan for the overthrowing of Musaddiq's government could not have succeeded. Unfortunately it appeared that these influential persons regarded American support as something obligatory and continuous, which would enable them always to shelter behind it and continue, as in the past, without paying any real attention to the basic needs of the country.

14. *The New Government*

General Zahidi presented his government to the Shah on the 23rd August. No ministers for War, Interior, Foreign Affairs, and Post & Telegraphs were named. These ministries were to be administered by Under-secretaries until Ministers were appointed; in the meantime General Zahidi proposed to keep a close watch on them himself. Three of the Under-secretaries are military men, and the cabinet has the appearance of being dominated by the army. The general public seemed greatly disappointed with the new cabinet, and many observers believed that it would have a short life.

15. *The Tudeh*

Since the fall of Dr. Musaddiq, the Tudeh has kept a complete silence, and all its newspapers have been suppressed. The bazaars have been closed since the 19th August, owing to Tudeh intrigues and threats that if they opened their shops they would be looted. The government was endeavoring to persuade the merchants to open their shops and offices, but up to the evening of the 23rd no success was achieved.

All indications were that the Tudeh was mobilising itself for a general attack on the Shah and the new government. It was learned that the Tudeh was trying to enlist the backing of all those who had supported the previous government, all the "progressive" elements who had already been disappointed with the new government, in order to form a united front. Well-informed observers believed that the Tudeh would become very much more active in the near future.

15. [*sic*] Certain influential persons were reported to consider that it was essential for the new government to put forward a radical and progressive policy. Otherwise, it would provide the extremists of the left with ample opportunities for exploiting any signs of reaction.

These same influential circles were believed to be tending towards considering that the appointment of General Zahidi would, in itself, encourage the Tudeh, on the grounds that the allegations of incompetence and corruption which were being levelled against him would enable the Tudeh to point to him as a mere paid creature of the U.S.A.

On the other hand, it is also reported that there were certain well placed persons who considered that General Zahidi was the best man to deal with the situation under existing circumstances, but that he would eventually be replaced by someone more politically acceptable.

No. 363

888.2553/9–353

Memorandum by the Special Assistant to the President for National Security Affairs (Cutler) to the Secretary of State

TOP SECRET WASHINGTON, September 3, 1953.

While briefing the President in Denver on the Council Meeting on August 27, I read him the NSC Action relative to the Secretaries of State, Treasury, Defense and the Director of FOA and CIA being a committee to nominate a "special representative of the US to deal with problems related to the Anglo-Iranian oil settlement."[1]

The President approved this Action and suggested that Mr. Jones, a President of Cities Service, would be a likely candidate for the "special representative," unless a governmental official were desired. When I said that Secretary of the Navy Anderson had been mentioned at the Council Meeting, he said that Anderson would be excellently qualified for the job, if he had time to do it. He said he would await the prompt nomination from your Committee.

When you go out to Denver to see him, perhaps you might take out the nomination(s) of your Committee. He will not be coming East until about September 18th.[2]

ROBERT CUTLER

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[1] See footnote 5, Document 358.

[2] A memorandum, dated Sept. 8, from Dulles to Smith, Byroade, and Phleger indicated that the President had approved the selection of Herbert Hoover, Jr., to be the special representative of the United States to deal with problems related to an Anglo-Iranian oil settlement. (888.2553/9–853) Hoover's official title was Consultant to the Secretary of State.

No. 364

888.00 TA/9–453: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET TEHRAN, September 4, 1953—noon.

584. Re Tecto 217 September 2, 1953 antepenultimate paragraph.[2]

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[1] Also sent to FOA and repeated to London.

[2] Reference is to the following question asked by FOA: Would Zahedi be agreeable to signing a formal commitment regarding East-West trade in compliance with the Battle Act? (888.00 TA/9–353)

At conclusion our conversation last night with Zahedi (Embtel 582 September 3 London 178)[3] I referred in presence Warne and Paul to informal statement made by him to us on August 31, (Embtel 539, September 1 paragraph 2) to effect Iran would not sell strategic materials or commodities to Soviet Union. I said it might be extremely embarrassing to US if after we had begun extending aid to Iran on substantial scale Iran Government would begin sell strategic materials to Iron Curtain countries. It would be helpful therefore if Prime Minister could assure us again at this time that Iran would not sell to Soviet Union materials and commodities which US considered to be of strategic character. Embassy has prepared supply Prime Minister list these strategic materials prepared in accordance with US law commonly referred to as "Battle Act". Prime Minister said he had no hesitation in giving us assurances not only that would Iran not sell materials of strategic character to Iron Curtain countries but that it would probably not sell some of the materials set forth in list of commodities mentioned in Soviet-Iranian treaty signed earlier in day.

2. I hope this statement by Zahedi will satisfy Department and FOA re Iranian intentions not to sell strategic materials to Iron Curtain countries. We are privately providing Prime Minister with Battle Act list (Deptel 673 September 1).[4]

HENDERSON

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[3] Not printed. (888.00 TA/9–353)

[4] Not printed. (460.889/9–153) On Sept. 11 the Department informed the Embassy that Zahedi's statement was satisfactory for Battle Act purposes. (Telegram 750; 888.00 TA/9–353)

No. 365

611.88/9–853: Telegram

The Secretary of State to the Embassy in the United Kingdom[1]

SECRET
PRIORITY

WASHINGTON, September 8, 1953—3:07 p. m.

1254. For the Ambassador. Please transmit following personal letter from the Secretary to Lord Salisbury:

Verbatim Text.

"Dear Bobbety: I have been watching very closely recent developments in Iran and Egypt, as I am sure you have. In my talks with the President in Denver yesterday I found that he fully shares my view that there is an opportunity far better than seemed possible a few weeks ago to change to our advantage the course of events in the entire Middle East. I am sending this message with his approval and indeed at his suggestion.

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[1] Repeated to Tehran and Cairo. Drafted and signed by Byroade; cleared in draft with the Secretary of State.

"I think if we can in coordination move quickly and effectively in Iran we could close the most dangerous gap in the line from Europe to South Asia. I am impressed by the new approach of the Shah and Zahedi and I believe that if we can respond with something which involves a new look without abandoning basic principles there is a good chance for a resumption of the old cordial relationship which used to exist between Persia and your country and mine. It might be useful for our officials quickly to begin their consultations on a confidential basis.

"I get the impression that the recent talks in Egypt[2] have gone well and that real progress has been made and that the many differences have been narrowed to a point where you will feel that it is possible to go ahead. If we can once get the new relationship under way with cooperation which will show visible signs of benefit in Egypt I think we can place some trust in this producing the permanent good will that we need.

"The President and I are delighted to hear of the rapidly improving health of the Prime Minister. I told the President of Kermit Roosevelt's good talks with you both.[3]

Faithfully, Foster."

DULLES

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[2] For documentation regarding U.S. concern with regard to the Suez Canal Zone, see vol. IX, Part 2, pp. 1743 ff.

[3] The Embassy in London reported on Sept. 9 that the Secretary's letter was delivered that day to the Foreign Office but that Lord Salisbury was not expected to return to London before the end of the week. (Telegram 1019; 611.88/9-953)

Lord Salisbury replied on Sept. 15 with a letter to Secretary of State Dulles, in which he agreed that the situation in Iran looked encouraging, that it had to be taken advantage of, and that, just before receiving Dulles' letter, he approved a set of instructions for presentation at the Department of State on the Iranian oil problem. (788.00/9-1553) A copy of the British memorandum in question was transmitted to Tehran in telegram 754, Sept. 11. (888.2553/9-1153)

No. 366

888.00 TA/9-1153. Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET TEHRAN, September 11, 1953—1 p.m.

639. 1. At Palace reception evening September 9 group Cabinet Ministers told me there had been very stormy Cabinet session earlier in evening. When Prime Minister had been informed by Fi-

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[1] Transmitted in two sections; passed to FOA.

nance Minister $37,100,000 of $45 million US emergency aid was to be "doled out at rate $5,300,000 monthly" for budgetary purposes and that less than $8 million would remain for "impact programs" he expressed disappointment and frustration. He informed Cabinet he would ask me to see him September 10 to tell me that without more funds for reducing unemployment and raising standards living his government foredoomed to failure and that he therefore thought he should resign now. When later Acting Minister Foreign Affairs asked me see Prime Minister morning September 10 I agreed provided Warne accompany me.

2. Warne and I spent two hours with Prime Minister. Prime Minister's son Ardeshir and Farzanegan, Acting Minister Posts Telegraph also present.

3. Prime Minister appeared depressed and harassed. He said he grateful for such aid as US had found it possible extend. Unfortunately it inadequate meet minimum emergency needs of country. He outlined at length certain projects which he said must immediately be initiated in order stimulate country and give Iranian people real hope for better future; for improvement living, health, education standards for reduction unemployment, etc. He dwelt particularly on needs for new roads, railroads, agricultural machinery, irrigation projects, improved agricultural methods, extension medical services to villages etc. He mentioned plans for establishing chains cooperatives; for creating banks to finance agriculture mining, trade, etc. He referred to programs for organizing peasants and urban workers into effective political groups. He maintained if 250,000 could be put immediately to work decisive blow would be struck unemployment. Warne made notes and will report in more detail some projects outlined. Prime Minister said it impossible make progress with only $7 million in carrying out these necessary programs. It would be dishonorable for him stay in office if it should become clear he unable carry out promises made to Iranian people who were trusting him. He could not conscientiously be Prime Minister of government which like preceding government last fifty years made promises and did nothing. In view hopelessness situation he saw no choice other than submit resignation to Shah. It became apparent to me from his remarks and those made by Cabinet Ministers preceding evening he had obtained impression US Government had decided instead of giving immediately $45 million aid promised to hand-out bulk of it at rate $5,300,000 monthly in order that it could have whip hand over Iranian Government and influence its current policies. I believe this impression created in part by statements appearing in US press that UK was bringing pressure on US to keep Iran on dole until oil settlement achieved and in part by failure his Ministers to make clear factors

responsible for our decision tentatively to turn over about $5 million monthly to Bank Melli to be sold for rials.

4. I told Prime Minister I regretted hear him talk of resigning. I sure he too great patriot abandon his efforts for country merely because task more difficult than foreseen. It would be dishonest for me offer him hope US could give Iran more than $40 million emergency aid.

I sure every cent available to US Government for such purpose had been placed at disposal Iran; additional funds could not be allocated since Congress not in session. Even if Congress were in session it would not be likely make grants to Iran of character which would revolutionize overnight economy of whole country. I doubted that Congress, for instance, would extend Iran grants to purchase thousands of tons steel rails (mentioned as one of needs). Funds for great economic development projects such as railroads should it seemed to me come more properly from loans. Even if Iranian political and economic situation was such as to encourage lenders, no loans possible under Iranian law until Majlis could be convened. Majlis could not meet for at least 6 months. Therefore, no possibility begin placing orders now for large quantities material and equipment for great economic projects. Furthermore careful study should convince him it would require many years carry out some of projects outlined. Necessary train thousands technicians and by education bring about certain changes in mentality Iranian people. Beginning could be made now on many programs outlined but country's economy, health and culture could not be revolutionized in course few months or even years.

5. Warne told Prime Minister he thought latter unduly discouraged. Start could be made on many programs outlined by him with $7 million now available. It not nearly so easy effectively spend money as Prime Minister seemed to think. Warne mentioned illustratively some uses which might be made with $7 million. He also pointed out that US contributions to budget and to Bank Melli for exchange purposes should in short time result in increases in budgetary income.

6. Farzanegan said there seemed to be divergence in thinking between US representatives and Iranian Government. Iranian Government considered it necessary for psychological and security reasons make multiple mass attack immediately upon economic, cultural and health weaknesses of country. US officials seemed to advocate more cautious carefully planned approach, effect of which might be felt over long term but not quickly enough to cause Iranian people retain confidence in determination present government carry out its promises. Temper of country such that Iran could not wait for years.

7. We explained in detail and by illustration various problems inherent in multiple mass approach tactics; also shock to Iranian economy which would result if attempt made convert immediately all emergency aid funds available into rials. We took considerable pains make Prime Minister understand that that procedure of handing out to Bank Melli approximately $5 million monthly for exchange purposes was not prompted by distrust of Iran or desire bring pressure but by fact that at present time that amount together with dollars received through usual transactions was probably all Bank Melli could offer for sale to Iranian importers without upsetting stability exchange rates. In addition to amounts placed at disposal Bank Melli for exchange purposes, plans being made rapidly to send Iran certain commodities such as sugar, which could be sold for rials thus increasing amount rials available for programs in country without disturbing stability exchange. We believe that Prime Minister eventually came to conclusion US was doing all it possibly could with limited means at its disposal to help him meet his financial and political economic problems and US not following policy of dole in dealing with Iran.

8. At conclusion our conversation Prime Minister asked that we again bring attention US Government fact that although Iran grateful for $45 million and other aid much more was desperately needed for immediate spending. He mentioned no specific amount. He suggested that if US could find more funds some of them might be used in sending Iran urgently needed commodities which Iran otherwise could not afford to buy, such as drugs, medicines, agricultural tools and machinery, et cetera. I told Prime Minister I would pass his comments along to US Government but that I must again be frank in stating I did not believe it likely US could find funds to increase amount of aid promised.

HENDERSON

No. 367

Eisenhower Library, Eisenhower papers, Whitman file

Memorandum of Discussion at the 162d Meeting of the National Security Council, Washington, September 17, 1953[1]

TOP SECRET EYES ONLY

Present at the 162nd meeting of the Council were the Vice President of the United States, presiding; the Acting Secretary of State;

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[1] Drafted by Hugh D. Farley, Assistant Executive Secretary of the National Security Council, on Sept. 17.

the Secretary of Defense; the Director, Foreign Operations Administration; the Director, Office of Defense Mobilization. Also present were the Acting Secretary of the Treasury; the Acting Attorney General (for Items 4 and 5); the Director, Bureau of the Budget; the Chairman, Atomic Energy Commission (for Items 2, 3 and 6); the Secretary of the Army, the Secretary of the Navy, and the Secretary of the Air Force (all for Item 2); the Chairman, Joint Chiefs of Staff; The Chief of Staff, U.S. Army (for Item 2); the Chief of Naval Operations (for Item 2); the Chief of Staff, U.S. Air Force (for Item 2); the Commandant, U.S. Marine Corps (for Item 2); Capt. C. C. Kirkpatrick, USN, Col. D. O. Monteith, USAF, and Carroll Hinman, Foreign Operations Administration (all for Item 2); the Director of Central Intelligence; The Assistant to the President; Robert Cutler, Special Assistant to the President; C. D. Jackson, Special Assistant to the President; the NSC Representative on Internal Security (for Item 4); the Acting White House Staff Secretary; the Executive Secretary, NSC; Hugh D. Farley, NSC Special Staff Member; and George Weber, NSC Special Staff Member (for Item 2).

There follows a summary of the discussion at the meeting and the chief points taken.

[Here follows discussion of items 1-4, including significant world developments affecting United States security, a report on the status of United States programs for national security as of June 30, 1953, and a progress report on internal security.]

5. Progress Report on Iran (NSC Action No. 891)[2]

Secretary Smith reported that Herbert Hoover, Jr. was now on duty as the Consultant for handling the oil problem, in accordance with NSC Action No. 891-b. He cited the two main problems we now face: to get a settlement between Iran and the UK, and then to get Iranian oil on the market. Mr. Hoover had accepted the appointment on two conditions, Secretary Smith said: (a) if he could be assured of the cooperation of the big oil companies in making room on the market for Iranian oil; and (b) if he could be assured of the cooperation of the Department of Justice in not pressing the cartel suit.

Secretary Smith said that Mr. Stassen had dug to the bottom of the barrel to find the $45 million for Iranian aid, and that General McClure was asking that additional military equipment be expedited. Secretary Smith said he felt that the key to stability in Iran was the Iranian army.

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[2] See footnote 5, Document 358.

Secretary Smith then mentioned the reluctance of the big oil companies to open the market, and suggested we must look forward to providing some kind of an operating syndicate, without risk of running afoul of the Attorney General.

Secretary Smith concluded his report by stating that we apparently had snatched victory from the jaws of death, and he was optimistic now.

Mr. Stassen said that the $45 million would probably hold for about 6 months, until the oil got moving. He added that the Army pay had to be increased. General Smith seconded the importance of raising Army pay in Iran, and mentioned that they have only one uniform apiece now. He felt that the UK and Iran were very close now, as were the UK and Egypt; and it is important that we do not miss our chance.

In response to Secretary Wilson's question, Secretary Smith said that Iranian oil was about 5% of world production. Mr. Stassen added that if the oil went into non-dollar markets it could find its own room, and added that this was possible in Europe.

Secretary Smith cautioned that some of the oil must, however, go into the dollar market.

The National Security Council:[3]

a. Noted an oral progress report by the Acting Secretary of State on developments with respect to Iran.

b. Noted that Mr. Herbert Hoover, Jr., had been appointed as a special representative of the United States to deal with problems related to an Anglo-Iranian oil settlement, in accordance with NSC Action No. 891-b.

[Here follows discussion of items 6-7, armaments and American policy and the status of NSC projects as of September 14.]

HUGH D. FARLEY

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[3] Paragraphs a-b constitute NSC Action No. 911. (S/S-NSC (Miscellaneous) files, lot 66 D 95, "Record of Actions by the NSC, 1953")

No. 368

788.00/9-1853 Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET PRIORITY TEHRAN, September 18, 1953—9 p. m.

703. 1. Shah received me this morning at my request. Conversation lasted 90 minutes. After usual amenities I asked if he pleased way things going. He replied he not altogether happy. Growing number complaints coming in re new government. Grievances for most part because of weakness members Cabinet and of appointment key posts men who in past have proved themselves incapable or dishonest. Even Ulemas (spiritual leaders) who formerly friendly Zahedi now becoming critical. Latest charges were that incompetent and dishonest people being retained and even introduced into Ministry Justice. Zahedi had also weakened army by trying bring back into active service retired incompetent and corrupt officers. On several occasions he had discussed these matters with Zahedi but Zahedi had apparently paid no attention to his warnings and suggestions.

2. I replied his remarks disheartening. I convinced both he and Zahedi well-intentioned and desired work together. I concerned lest they not being frank with one another. Zahedi kind of man with whom Shah should speak openly and not hint. Shah should also encourage Zahedi express his views without reservation since because of his deep respect Zahedi almost sure hesitate disagree with Shah. Since both had common objectives there should be no divergence views if there should be frank exchange.

3. I told Shah rumors circulating in Tehran that he and Zahedi in disagreement re army. On one hand it being said Zahedi taking actions re army without consulting Shah and on other Shah ignoring Zahedi in issuing instructions to army direct to Chief Staff. Tudeh and other enemies of both Shah and Zahedi undoubtedly delighted at stories this kind and taking pains give them wide currency. Shah said there need be no differences or even rumors of differences if Zahedi would realize he had nothing do with army. It difficult for Zahedi to forget that as Prime Minister he now civilian not in capacity army officer. He quite willing hear anything Zahedi might say to him personally and confidentially re army but not prepared set precedent by permitting Prime Minister openly give advice re army matters.

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[1] Transmitted in four sections; also sent to London. On Sept. 19 a summary of this telegram was sent to the U.S. Mission at the United Nations in New York for Secretary Dulles as Tedul 6. (110.11 DU/9-1953)

4. I pointed out army highly political institution. In present delicate situation changes in its high ranking personnel or organization might affect political stability country. Therefore, Shah should make no such changes without at least informing Prime Minister in advance his intentions. Shah said he willing inform Prime Minister in advance but not prepared promise refrain from any action re military to which Prime Minister might object. As Commander-in-Chief he could give orders direct to Chief Staff without going to Prime Minister. Prime Minister on other hand should not give orders to Chief Staff except through Minister Defense who would have opportunity consulting Shah before conveying them. I said that in general Shah should channel orders of importance through route Prime Minister and Minister Defense to Chief Staff. Otherwise, both Prime Minister and Minister Defense might be unaware of certain developments for which they should be prepared. Shah repeated he intended give no important instructions to Chief Staff without informing Prime Minister in advance. He did not, however, indicate willingness channel his instructions through Prime Minister.

5. Shah said nothing so far reduce unemployment and take measures for economic development of country. I said such criticism extremely unfair and explained some of financial difficulties of government including those connected with obtaining rials. Government not only inherited bankruptcy but archaic, inflexible fiscal system which shackled its activities. Shah replied he aware criticism unfair but, nevertheless, it bothered him. He thought government partly to blame in that its information apparatus was extremely poor. Government had been ineffective in explaining its difficulties to public.

6. Shah said he understood I had been pressing for early elections. I said, "no." I had, however, pointed out to Prime Minister difficulties which Iran might face if no Majlis at least by March 1. I asked if Shah opposed elections. Shah said he thought it dangerous have elections until government had instituted broad impact economic development programs which would show people it intended by acts, not by promises, to help them. I pointed out government did not have funds for instituting such impact programs and probably would not have until oil settlement could be achieved and Majlis could meet ratify it and approve loans.

7. Shah said if US more interested in saving Iran from Communism than in achieving oil settlement he saw no reason why US Congress could not grant additional credits in January so that public works could be undertaken prior to elections. Did US want oil settlement at expense of Iran's loss of independence? I replied if no oil settlement made, I thought Iran would lose its independence

anyway. It seemed to me quite impossible for US Congress to grant more credits to Iran if oil settlement not achieved or at least in sight. American public opinion would oppose such action by Congress. Furthermore, British public would be outraged and would bring pressure on British Government. Shah knew as well as I that if US and UK would work at cross purposes in Iran they would thwart each other and Russians would have clear field. Shah agreed. He said he afraid, however, that free elections without prior impact programs would result in returning many rabble rousers and irresponsibles to Majlis who would paralyze government.

8. I said if through free elections Iran not able return patriotic men able and willing to pass legislation necessary for maintaining Iranian independence and promoting its prosperity it would seem to me that democratic independent Iran not possible in present conditions and decision must be faced as to whether (a) for period there be an undemocratic independent Iran, or (b) permanently an undemocratic Iran behind iron curtain.

9. Shah said perhaps it would be safer in circumstances for elections to be "supervised". I said Shah and government better judge in this respect than I. I would venture remark, however, that if elections were supervised aim should be to fill Majlis with intelligent broadminded loyal patriotic Iranians possessing leadership qualities rather than second rate and perhaps even dishonest Iranians whose only merit might be willingness to vote yes. Shah said he heartily agreed but before elections could be held on this basis it necessary for Zahedi extirpate incompetent and doubtful people from his Cabinet, from his advisers several Ministries. Greatest necessity of course would be that army be strengthened immediately regarding morale and equipment.

10. Shah then stressed with great earnestness army needs. Financial situation army personnel, particularly non-commissioned officers and commissioned officers up to rank captain, unbearable. He had been compelled promise them increases in salary and better housing conditions. Unless this done immediately he could not vouch for morale army. Even without impact programs government could ride through storm if army morale intact. Without good morale in army and without impact programs to satisfy unemployed and poverty-stricken masses election campaign might prove disastrous. With loyal army he would not even hesitate in case supervision elections should fail produce "good Majlis" to dissolve it and exercise dictatorship until impact programs would prepare atmosphere for a second round of elections. He hoped US Government would understand what loyal army would mean to Iran in present difficult situation.

11. I asked what precisely he had in mind. He said he not yet sure exact amounts but thought it would cost approximately $300,000 monthly to raise salaries and approximately $200,000 monthly to carry out housing program in outlying districts where commissioned and non-commissioned officers living in abject misery. I asked if he desired that funds which we had hoped to lay aside for impact programs be diverted to this purpose. He replied "no". Rumors would inevitably become current that workers being sacrificed for army. That would be disastrous. This extra half million dollars monthly should not be taken from such meager funds as might be available for impact programs.

12. I asked Shah if it his idea that US Government find immediately another $3.5 million for carrying out "army morale" program up to April 1. He said "yes". He sorry make such request. He realized US fiscal difficulties. Nevertheless he hoped US would realize urgent needs and find some way provide these funds. I asked if it might not be possible that housing program be carried out as technical assistance program like present limited program for improving housing conditions *gendarmerie*. He said "no". Housing program for army should be carried out as purely Iranian program under some kind additional Iranian army budget. It would make army personnel vulnerable to propaganda charging that army had been taken over by US and that military forces were in effect US forces if housing program was under US auspices. Army personnel would be informed by Tudeh and other groups hostile to West that army had been sold out; it supposed fight for US not for Iran. I said I would bring his views attention US Government which I know would be sympathetic but that I could not see where any additional funds could be found for this purpose. Furthermore, there were technical problems involved, in view Iran's inflexible fiscal system in exchanging $3.5 million additional dollars into rials. Shah said he confident US and Iranian experts could find means accomplish this if they would exert all their ingenuity. He intimated that if necessary some extraordinary way might be found to effect such conversion.[2]

13. I told Shah I thought that at present juncture best Iranian financial brains should be brought to bear on Iran's fiscal problem.

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[2] On Sept. 19 Ambassador Henderson informed the Department that the figures he provided in paragraphs 11 and 12 were inaccurate; that the minimum needed to raise salaries for noncommissioned and junior officers would be 95 million tomans per month at an official exchange rate of 9.6 tomans to the dollar. Henderson went on to say that he and others at the Embassy agreed with the Shah that it was necessary to raise army salaries and improve living conditions within the Iranian armed forces because they were the main pillars of the country's stability and security. Therefore, the Embassy hoped that some way might be found to make additional funds available as requested by the Shah. (Telegram 705; 788.00/9–1953)

I asked why it was that man like Ebtehaj not being used. He said he had pressed Zahedi to bring Ebtehaj back. He thought latter much more capable and trustworthy than Amini, present Minister Finance. Zahedi, however, had thus far apparently not taken any steps to effect return Ebtehaj.

14. I again returned to problem Majlis. It seemed to me necessary that in near future there be passage of legislation re oil settlement, re possible foreign loans, re reformed fiscal and taxation systems, etc. Shah said perhaps loans not necessary. Several European countries had already expressed willingness advance enormous grants of credit to Iran. German bankers and industrialists even discussing possibility credits to Iran in amount $200 million. Japan also showing interest furnishing credits in return for future oil deliveries or in connection with barter deals.

15. I said I confident any credits which European countries or Japan might offer Iran were based on assumption that oil settlement would be achieved. Shah said nothing had been said to that effect. I replied Iran should not build up false hopes. Inconceivable that any responsible group foreign businessmen would wish to risk extending credits or making investments to Iran so long as latter in its present abnormal international and internal political and economic situation. Risk would be too great. Iran's international credit worthless in absence oil settlement. It would be great tragedy if Iran should obtain false idea that it could play off one group of businessmen in free world against another at least in absence oil settlement. He should use all his influence to bring about settlement oil problem in earliest possible future. If then Iran could receive large credits from other free countries so much the better.

16. Shah asked if I had as yet any ideas as to what might be necessary in order effect settlement oil problem. I replied negative. I sure he would find UK full good will and anxious to effect settlement on fair basis. Iran could not expect, however, that UK would abandon principles on which international intercourse among free nations must be based in order achieve settlement. Shah asked whether it would be preferable to establish relations with UK prior to oil settlement. In his personal opinion oil settlement should come first. I said I had no views on this matter. I did not know what British attitude was. However I thought diplomatic relations should be resumed and oil settlement effected without delay. Until that done international position and internal political and economic situation of Iran would continue to be delicate and dangerous.

HENDERSON

No. 369

888.2553/9–2153: Telegram

The Secretary of State to the Embassy in Iran[1]

SECRET NIACT WASHINGTON, September 23, 1953—7:27 p. m.

853. In partial answer urtels 718 and 719[2] following represents trend present thinking here.

Informal talks with British start September 24 or 25. Our preliminary information is that British are in cooperative frame of mind and expect our full partnership in oil matter.

Our position and that of British appear identical regarding repercussions on our respective oil operations elsewhere in Middle East and rest of world. Whatever solution is found for Iranian problem will soon be forced on both of us by all other countries if in any way more advantageous to them than those now in operation. Extreme nationalization is greatest problem and becomes focal point for communist agitation.

Notwithstanding suggestion in British memorandum September 11 that discussions with Iran should be predicated on February 20 proposals, we are of opinion that conditions have changed so much during last eighteen months that this approach may no longer be feasible.

Implementing any settlement along lines of February 20 proposals presupposes willingness of petroleum industry to take substantial amount of Iranian oil. At that time alternate sources of supply were not fully developed nor refinery programs worked out. Today there is ample supply of cheap oil available to Middle East companies. In fact they are faced with oversupply. Refinery commitments have also been completed and when construction now underway is finished next year there will be adequate capacity available. Alternate solution must therefore be found.

Distribution of appreciable quantity of Iran's oil into world markets requires complete cooperation of entire petroleum industry. In early stages oil can be handled only by those companies now operating in Middle East. Highly doubtful that industry cooperation can be obtained if premium is placed upon nationalization and consequent loss of existing sources of supply in that and other strategic regions.

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[1] Repeated to London on Sept. 26. (888.2553/9–2153) Drafted by Hoover and signed by Byroade.

[2] In telegram 718, Sept. 21, Ambassador Henderson warned that the United States and United Kingdom had to work together on a common basis of trust and cooperation, or else the West would lose Iran to the Communist bloc, and that, therefore, the two countries had to approach an oil settlement on the basis that this was a dynamic political and psychological problem rather than a technical or commercial problem. (641.88/9–2153)

In telegram 719, Sept. 21, Ambassador Henderson outlined the type of oil settlement he envisaged would offer the best chance for a successful resolution of the controversy. (888.2553/9–2153)

The partial negation of Iranian nationalization program inherent in following or similar proposal we believe represents limit to which private industry will go even under pressure. If solution similar to one outlined below can be made palatable to Iran, then entire compensation issue can be avoided and existing danger to our strategic sources of supply elsewhere minimized.

Following type proposal suggested from several quarters and indications are that it might be acceptable to various American, Dutch and British interests involved. Your comments earnestly requested whether something along this line might be acceptable to Iranian Government. If so it could be put to British if they appear disposed discuss concrete suggestions.

A. A new operating company would be formed owned half by American companies and balance by Dutch Shell and AIOC with latter interest not over 25%.

B. To compensate AIOC for reduced participation, American and Dutch companies would in effect purchase 75% of AIOC claim against Iran at price agreed upon by direct negotiation between them, thereby obviating necessity of any compensation payments between Iran and AIOC.

C. Above transaction would be contingent upon contract being executed between Iran (or NIOC as Iran's effective agent) and new company substantially as follows:

1. Recognition of nationalization of subsoil resources of Iran.
2. Iran would receive 50% of income after deducting operating expenses and depreciation. This is same formula now used elsewhere in Middle East and South America. Approval by Majlis unquestionably required before full scale operations commence.
3. Almost immediate crude oil off-take of 400,000 barrels per day could be arranged, providing participating income approximately $100,000,000 per year to Iran, plus additional expenditure of about $25,000,000 per year within country for local wages and materials.
4. Guaranteed minimum crude oil off-take of 300,000 barrels per day, with proportionate payments as in (3) above.
5. Probable increase in off-take as world markets increase.
6. Excellent probability that upon formal approval of such contract World Bank would make immediate and substantial loan to Iran upon commercial basis against future oil revenues. Bank might properly insist upon supervision of expenditures under loan.
7. Company would supply all working capital for operations and new capital for renewed or expanded facilities.

8. Operation of refinery will probably take some time and then at reduced thru-put due enlarged modern facilities closer to markets and obsolescence of old plant.

9. Under such proposal company would have title to or lease of all producing and refining facilities for life of contract in view of effective purchase by company from AIOC of these same facilities and obviating compensation issue between Iran and AIOC of amount variously estimated between half-billion to one billion dollars. Drawn-out proceedings with attendant recriminations would thereby be avoided.

10. Life of contract would extend for at least 40 years, in order to allow amortization of payments to AIOC. Geographic area would be same as old AIOC concession.

11. Contractor would have effective management of field and refining operations under American or Dutch supervision but using maximum number of Iranian nationals in responsible positions.

12. Large number of American marketing companies would participate to insure stable and diversified markets from Iranian viewpoint and to satisfy requirements of equity and public opinion in U.S. This also necessary in order to raise large amount of capital required and to handle such substantial amounts of oil.

One possibility for immediate but limited resumption of operations would be for NIOC to execute such contract with company once, subject to approval by Majlis later. Whether NIOC has such power not known here. But if possible limited amount of income to NIOC would be forthcoming within relatively short time. Full scale operations and extension of bank financing would await ratification.[3]

DULLES

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[3] Henderson responded in telegram 749 from Tehran, Sept. 25, stating in the strongest terms "that it would be fatal to Western interests to offer present Iranian Government proposals less advantageous from point of view of principle than those made to Mosadeq on February 20." He felt it "not unlikely Zahedi Government would resign at once and Shah in despair would abdicate." (888.2553/9-2553)

On Sept. 26 the Department informed Ambassador Henderson that the talks with Butler, which began on Sept. 25, had thus far been informal and exploratory, and that it would not be possible for decisions to be made within the U.S. Government during Butler's stay in Washington. Moreover, the British were given orally and only generally the line of thought presented in telegram 853. (Telegram 879; 888.2553/9-2653)

No. 370

788.55/9–2953: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET TEHRAN, September 29, 1953—8 p. m.
[Received 2:39 p. m.]

783. 1. Shah today described to me at length his perplexities re future Iranian Army. He said point had been reached where it now essential he know views US and UK re uses for which Iranian Army to be prepared. Did US and UK desire that army be used exclusively for maintaining domestic law and order? Did they desire army which in case of attack from Soviet Union could engage in delaying action by falling back successively from holding point to holding point? One kind army needed for mere police force; another kind needed to cope even for relatively short period with invasion from North. At present army was unwieldy and maintaining useless weapons if it was to serve as police force. It did not have proper organization or weapons if it was to carry on delaying action. If police force desired there should be sharp reduction in expenditures and abandonment certain types weapons. If potentiality for delaying action desired until help could come to Iran or at least under defenses ME could be strengthened, there must be reorganization and different kind weapons.

2. Shah said he hoped questions which he had put to me could be studied by highest agencies US Government. He supposed that answer could be given only by decision National Security Council approved by President after discussion with UK. It seemed to him important that policy UK and US in this respect should be identical. It had been his feeling that UK in past years had not been sympathetic to creation Iran Army strong enough to offer even temporary resistance to invader. On other hand British had not appeared to object to steps taken by US to strengthen military power Turkey. He still could not see any sense in building strong Turkish Army which Russians could easily out-flank through Iran. If decision should be in favor of police force army, Iran would have no choice except to bow to it since obviously it not in position without US or UK aid to build even third-class army. Decision would probably have considerable effect on morale Iranians. It would not be easy for Iranian people to take strong stand in supporting [*combatting*] inroads Communism once they realized they were to be given no chance holding even portion country until help could arrive.

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[1] Also sent to London.

Army morale would also tumble. Nevertheless, it preferable that there be clean-cut decision in this respect; precious funds should not be wasted on useless armament and military salaries.

3. Mosadeq had taken position army should be merely police force. After he had taken control army, however, he had been afraid to put his ideas into force for fear of what effects on army attitude towards himself would be. Result was that military matters continued to drift.

4. Shah went into considerable detail re what might be needed in case decision should be made that army should be enabled to engage in delayed action. I shall not try repeat them in this telegram. He mentioned particularly tanks of kind that could meet on even terms best Soviet medium weight tanks, light anti-aircraft guns, tank destroyers, ammunition dump sets. He insisted that cost would not be excessive in light of what US had spent in Korea and was spending in Indochina. Nevertheless, they would be larger than recent US expenditures for Iran army equipment.

5. I promised report our conversation to Washington. He said he hoped for answer soon as possible so that business-like plans could be made re future Iranian Army.[2]

HENDERSON

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[2] On Oct. 1 Byroade informed the Embassy in Tehran that the substance of telegram 783 from Tehran had been given to the British Embassy in Washington with the indication that the United States felt that the Iranians should not be told that they should consider their Army merely to be a police force. Moreover, the British were told that the United States hoped that the British would authorize the United States to inform the Iranians that the British Government was of the same view. (Telegram 916; 788.55/9-2953)

No. 371

888.2553/9-2953: Telegram

The Secretary of State to the Embassy in Iran[1]

SECRET NIACT WASHINGTON, September 29, 1953—7:30 p. m.

897. 1. Discussions with British on Iranian oil problem frank and cooperative. By mutual agreement no commitments made by either side.[2]

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[1] Repeated to London. Drafted by Hoover and approved by Byroade.

[2] At this point, two meetings had been held between officials of the Department and British representatives led by Victor Butler, the British Minister of Fuel and Power, on Sept. 25 and 26. Subsequently, two additional meetings were held on Sept. 30 and Oct. 1. The texts of the minutes of these meetings are in file 888.2553.

2. We both feel little probability arriving satisfactory permanent solution now.

3. Various forms interim agreements examined. Possible two year operation by World Bank discussed as follows:

A. All issues of principal on compensation for nationalization and deposits in escrow be postponed with no prejudice to rights of either party. If no permanent settlement made during two-year period status reverts to one now existing.

B. AIOC would waive all legal rights to oil produced by Bank during period.

C. Bank would supervise operations using independent American engineering firm such as Stone and Webster.

D. Bank would dispose of oil by contract at own discretion probably direct to international companies individually who now operate in Middle East and cutting back production that area proportionately.

E. Net income per barrel to Iran after operating costs would be essential same as other countries in Middle East now receiving.

F. Large scale operation obviously not possible but estimate annual net income to Iran approximately sixty million dollars with Bank making initial loan against subsequent repayments.

4. Such plan obviously requires substantial compromise by both parties and no assurance that British would agree although indicate real desire to be helpful. Now apparent further progress awaits developments Tehran.

5. British apparently agree suggestion Hoover proceed Tehran when you believe desirable.[3] He anticipates such visit would be exploratory only at this stage. Request your comments on suggested timing and reaction in Iran to such exploratory visit. We would see profit here such visit unless you foresee serious consequences.[4]

DULLES

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[3] Byroade advanced the U.S. proposal that Hoover should proceed to Iran on a factfinding visit at the meeting with the British representatives on Sept. 26. (888.2553/9-2653)

[4] On Oct. 2 Ambassador Henderson responded, expressing disappointment that there seemed to be little possibility of reaching a permanent and satisfactory solution at that time, as he felt a temporary solution would leave Iran in a state of chronic political restlessness for the next 2 years. The country's credit position would be such that foreign and private investors would not inject capital into the economy; nor would Iran have the funds necessary to carry out substantial economic development programs without foreign aid.

With regard to Hoover's projected trip to Iran, Henderson thought such a visit would be extremely helpful as long as the British were agreeable, and Henderson recommended that Hoover should stay several weeks. (Telegram 820; 888.2553/10-253)

No. 372

888.2553/10–853: Telegram

The Secretary of State to the Embassy in Iran[1]

SECRET WASHINGTON, October 8, 1953—3:56 p. m.

956. Following is text British note from Eden to Secretary delivered October 7:

"I have just got back and at once looked into recent correspondence about Persia. The first thing that struck me was the admirable way in which Henderson had handled matters, and I should be very glad if you could let him know how grateful I am for the part he has played.

I am no less grateful for the study which your people in the State Department have given to the problem and for your readiness to send Hoover out to Tehran. I entirely agree that in everyone's interests and particularly in Persia's, we must try to solve the oil question as soon as possible, always provided of course that this can be done without detriment to other vital interests. But I feel strongly that our immediate aim should be to re-establish diplomatic relations; you will not misunderstand me I am sure if I say that negotiations through intermediaries, however trusted and well briefed, can be no completely satisfactory substitute for direct contact. Sooner or later we should have to come into the talks, and from all points of view it would in my opinion be preferable for us to be in them from the start. In any case on general political grounds it is foolish for this estrangement between us and Persia to go on any longer.

While therefore I gladly accept the suggestion that Hoover should go to Tehran, I should like to see his purpose defined as follows: in cooperation with Henderson

(a) to make clear that we want to re-establish relations as soon as possible, and shall be ready to do so whenever the Persians are;

(b) to assess the political situation in its relation to the oil problem, having discussion for this purpose with the Shah and General Zahedi; and

(c) to explain to them the problems involved in putting Persian oil back on the market, and to try to elicit what ideas the Persians themselves have about a possible settlement.[2]

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[1] Pouched to London. Drafted by Gray and approved by Byroade.

[2] In a memorandum from Byroade to Secretary Dulles on Oct. 7, Byroade informed the Secretary that he and Hoover, upon delivery of Eden's message, told the British Embassy representative they were pleased with the general tone of Eden's message, but that they thought the terms of reference for Hoover's trip were too restrictive. Points a, b, and c were a British rewrite of the terms of reference worked out with the British during Butler's visit, with point a actually being a British addition. The British representative pointed out that he felt considerable latitude could be used by Hoover under the wording of paragraph c, but that he would ask for London's com-

Continued

I hope you will be able to agree to that definition. Meanwhile, the latest proposal is being considered urgently and we will let you have our comments as soon as possible.[3] I very much hope Hoover will not leave until you have them. We should much like to see him here both on his way out and on his return.

DULLES

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ments on according Hoover greater latitude. Byroade also told the Secretary that he and Hoover agreed that Hoover would not leave until the British comments had been received concerning the American proposal that Hoover explore the possibility of reaching an interim solution to the oil crisis. (888.2553/10-753)

[3] See *infra*.

No. 373

888.2553/10-953 Telegram

The Secretary of State to the Embassy in Iran[1]

SECRET PRIORITY WASHINGTON, October 9, 1953—8:45 p. m.

973. Foreign Office views on Hoover's trip and interim settlement presented Department this morning. In brief, Foreign Office much prefers long-term settlement and feels interim settlement:

1) would set pattern any final solution;
2) might last indefinitely or at least reduce pressures on Iranians come to final settlement.

Furthermore, British believe present attitudes Iranian Govt offer best chance effecting some final settlement and they hope if Hoover finds any reasonable opportunity, he will press for final solution.

Recognizing, however, that it may be necessary for Hoover discuss at least in general preliminary terms interim settlement, British listed certain points which they feel must be considered in any interim arrangement.

1. Foreign Office attaches "greatest importance" to IBRD operating on behalf both parties;
2. While AIOC would give waiver its legal claims to IBRD oil sales, this would not apply any other Iranian oil sales;
3. HMG considers it "essential" some part of proceeds be set aside towards compensation. British feel this necessary protect AIOC and prevent undesirable effect on Iran's neighbors;
4. HMG would expect British Engineering firms to be associated with any US or international companies hired by IBRD to operate oil industry;

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[1] Repeated to London. Drafted by Stutesman, cleared with Hoover, and approved by Jernegan.

5. Since costs Iranian oil industry, particularly with present labor position Abadan are uncertain HMG doubts whether Iran could be given return per barrel comparable with what neighboring countries receive (say 80 cents) without giving Iranians more than 50 percent net profits likely to be realized;

6. Political and economic effects from the size of AIOC participation would have to be considered. HMG had always assumed AIOC would "handle 50 percent production". This does not mean AIOC would be unwilling consider other agreements but this point would have to be taken into account in any settlement.

British had hoped Hoover would stop at London in order demonstrate to Persians joint US-UK approach on oil problem. However, they agreed Hoover should go directly Tehran.[2] In regard publicity, they hoped US spokesmen would state British had been consulted on Hoover's trip and they proposed to volunteer this information themselves.

In brief conversation following presentation British views, Hoover made point that question AIOC participation would naturally lead to question AIOC willingness cut back crude oil production other areas. Hoover also pointed out in regard Point 5 above, that it would be difficult from practical standpoint put Abadan refinery back into any substantial operation under interim settlement.

DULLES

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[2] On Oct. 12 the Department informed Ambassador Henderson that Hoover was planning to depart New York on Oct. 15, arriving in Tehran on Oct. 17. (Telegram 983; 888.2553/10-1253)

No. 374

788.00/10-953: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET TEHRAN, October 9, 1953—6 p. m.
[Received 9:41 p. m.]

866. 1. During talk with Ala, Minister Court, evening October 6, he asked my latest thinking re Majlis and Senate. I explained why I thought it preferable Shah issue firman dissolving both bodies and calling for new elections. I said I failed understand why Shah appeared be unwilling do so. Ala said he agreed with me . . . . Early on morning October 7, Ala informed me he had talked with Shah who not only had expressed willingness sign nec-

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[1] Transmitted in two sections; repeated to London.

essary firmans if requested by Zahedi but also had asked Ala . . . urge Zahedi at earliest possible moment request Shah to issue these firmans.

2. I learned later on morning October 7 that Prime Minister Zahedi was to lunch with Shah and requested see former before his luncheon. During our conversation I gave Zahedi substance formal attitude UK re Majlis (see paragraph 2 Deptel 933, October 5, repeated London 1772).[2] I also said it my impression both US and UK of opinion that from point view ratification agreements it would be preferable have full rather than rump Majlis. Questions might be raised later as to why seats in Majlis made vacant by resignations had not been filled, particularly seats Tehran deputies. It seemed to me personally his government would be in stronger position not only internally but before world if it could be supported by full duly-elected Majlis.

3. Zahedi said he hesitated incur hostility small group rabid nationalists who opposed dissolution. He thought it would be easier control them in framework Majlis consisting of 23 deputies who had not resigned plus those elected to fill vacancies which Mosadeq had not permitted be filled than it would be if he were to antagonize them by having Majlis dissolved. Furthermore, he needed Majlis for certain urgent legislation. Vacant seats sufficient make quorum could be filled by election with[in] few weeks. Holding of general elections would require several months. Furthermore, if Majlis should be dissolved and new one brought in as result general elections certain nationalistic elements would charge he had deliberately replaced nationalist Majlis with one subservient to British and Americans.

4. I said I realized force his arguments and did not wish to press him take action which, in his opinion, would be harmful Iran. It seemed to me, however, that experienced public relations officials could explain to Iranian public that (a) certain important laws must be enacted in near future; (b) all districts Iran should be represented in any Majlis considering these laws; (c) Mosadeq by preventing completion of elections and bringing about resignations of more than 50 deputies had succeeded in undermining effectiveness present Majlis; (d) in order that Iran might be provided at once with effective Majlis he was requesting Shah dissolve it and call for new elections; (e) since effectiveness of present Senate had also been weakened by Mosadeq he was also requesting Shah dissolve it

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[2] In telegram 933 the Department informed the Embassy in Tehran that the British felt that the United Kingdom could make no agreement with Iran unless it was concluded and ratified by the Majlis in a manner valid under Iranian law and consistent with the provisions of the Iranian Constitution. (788.21/10–553)

and call for holding senatorial election simultaneously with those of Majlis. I said it difficult believe that if this matter presented to Shah latter would fail to see its merits and would be unwilling issue necessary firmans. I hoped he could take this matter up with Shah at lunch. . . . Prime Minister promised he would discuss matter with Shah at lunch.

5. While I still talking with Prime Minister member Embassy staff brought me Deptel 938 October 6 repeated London 1784,[3] substance of which I communicated to him.

6. I told Zahedi that I would also be grateful if when talking with Shah he would again raise question establishment near future diplomatic relations with UK. I aware both he and Shah inclined believe it preferable diplomatic relations be resumed simultaneously with oil settlement. After giving this matter further thought I had become thoroughly convinced diplomatic relations should be resumed at earliest possible moment and that resumption should not be considered as linked with oil problem. In present delicate international situation it disadvantageous to Iran not to have diplomatic relations with great member free nations such as UK. Immediate resumption relations should strengthen Iran's international position as well as internal position of present government. Present government could never hope have support of Tudeh and other anti-Western elements of country. It needed backing all pro-Western elements. Until it had established relations with UK many powerful groups in Iran friendly to West would not be likely give government their full confidence and support. I had reason believe UK was prepared establish diplomatic relations. Since Iran had broken relations it seemed to me it was appropriate it should take first steps to resume them. British Government and public friendly towards present Iranian Government. If, however, this new government would appear to be following Mosadeq's policies re UK, sympathy of UK Government and public towards new Iranian Government must gradually disappear. Furthermore, there no logical reason for linking oil problem with that resumption relations.

7. Zahedi said he doubted that public opinion in Iran as yet prepared for resumption diplomatic relations with UK in absence of oil settlement or at least of concrete steps in direction oil settlement. He afraid that if British Embassy should be established in Tehran before settlement oil problem it would become target abuse extreme nationalists and relations between Iran and UK would

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[3] Telegram 938 instructed Henderson to convey the substance of telegram 933 to Prime Minister Zahedi and also to inform him that although the U.S. Government was unwilling to make a judgment in this matter, it nonetheless expected that any agreement which was concluded would be ratified in a manner valid under Iranian law. (788.21/10–653)

suffer. Furthermore, Mosadeq has been successful in persuading Iranian people that problem oil settlement and that diplomatic relations with UK were linked. If new government should enter into relations with UK without oil settlement many Iranians, he feared, would begin to believe propaganda of elements hostile to government to effect new government merely puppet of British and Americans. I said I realized that it would be necessary prepare Iranian public for resumption relations. I did not believe, however, such preparations would be difficult or would require much time. Prime Minister promised discuss this matter with Shah.

8. I immediately informed Ala substance this conversation. I suggested he tell Shah before latter's meeting with Zahedi. Ala said he knew Shah would welcome request to issue firman dissolving Majlis and Senate. He doubted, however, that Shah would consider it wise for Iranian and British relations to be resumed prior to oil settlement. Shah was still of opinion that government might be charged by Iranian nationalists as following weak policy re British if it should enter into diplomatic relations while oil situation existed as at present.

9. Ardeshir Zahedi told me afternoon October 8 Shah had told his father that in his opinion both Majlis and Senate should be dissolved at once and steps taken to hold general elections within next few months. Ardeshir said he did not as yet know what his father's final decision in this matter would be. His father would discuss this problem, together with other problems, with me on evening October 10.[4] Ardeshir also said he did not know what present attitude of Shah was re resumption diplomatic relations with UK. Ala confirmed to me evening October 8 that Shah pressing Zahedi for dissolution Majlis and Senate. He also disclaimed knowledge re Shah's latest views re resumption diplomatic relations.

HENDERSON

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[4] Ambassador Henderson reported on his conversation with Zahedi on Oct. 10. Zahedi informed him that he had spoken with the Shah about the future of the Majlis and Senate and told the Shah he was inclining toward the position that both should be dissolved and new elections be held. He also informed the Shah that he thought he would take the decision within the next 2 or 3 days. (Telegram 881, Oct. 12; 788.00/10-1253)

No. 375

888.2553/10-1253: Telegram

The Secretary of State to the Embassy in the United Kingdom[1]

SECRET PRIORITY WASHINGTON, October 13, 1953—6:27 p. m.

1964. At your earliest convenience deliver following message from Secretary to Eden:

"Thank you for your message of October 7 and particularly your kind words about Loy Henderson. It is pleasant to know you share our view that he has shown remarkable skill in handling a very complicated problem.

"It seems there may be an opportunity now to move forward rapidly in Iran and I consider the views put forward in your message most helpful. Hoover, who will soon be in Iran, will bring you a first-hand report on the situation there, probably within another two weeks. I do appreciate your agreement that he go directly to Tehran. I know that he will have some interesting news to report upon Iranian attitudes and their understanding of the problems involved in putting Iranian oil back on the world market.

"We thoroughly understand your feelings about the desirability of early reestablishment of diplomatic relations and your hope that full advantage will be taken of whatever opportunities may arise to push for the final settlement of the long-standing oil dispute. Hoover understands that the question of an interim settlement is to be discussed only under general terms and only if there seems to be no chance in the present atmosphere of pressing for an early and complete settlement of the issues in the dispute."

DULLES

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[1] Repeated to Tehran. Drafted by Stutesman, cleared in draft by Raynor, Hoover, and the Secretary of State, and approved by Richards.

No. 376

Editorial Note

On the morning of October 17, Secretary of State Dulles and British Foreign Secretary Eden held a discussion in London about the situation in the Middle East in general. Secto 20, October 17, reported the following regarding Iran:

"Eden told Secretary that when Parliament meets next week he intended to say something nice about new government, stressing that as Iran aware UK ready resume relations. In reply Eden's query re present government, Secretary said Zahedi's position seemed satisfactory for time being but something must be done to assist economically. Congress would not extend aid indefinitely.

Eden and Secretary agreed Iran oil must start moving into world market as this was of major importance politically. British then said they were planning supply locomotives worth about 1 million pounds to Iran on extremely liberal credit terms. Outright gift would require approval Parliament." (PPS files, lot 64 D 563, "CFM-London Oct. 1953")

The Secretary of State was in London at this time primarily for the Tripartite Foreign Ministers meetings October 16–18, 1953. For documentation on the meetings in London, see volume VII, Part 1, pages 687 ff.

No. 377

888.2553/10–2953: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET PRIORITY TEHRAN, October 29, 1953—2 p. m.

996. Prime Minister invited Hoover and me dinner last evening for further oil discussion.[2] Entezam, Minister Foreign Affairs, and Ardeshir, son of Zahedi, also present. In response our questions, Prime Minister indicated report given him by factfinding oil commission not particularly helpful. Report oral but he expecting it in written form. He opened conversation by asking precise definition word "enterprise" contained in terms of reference in proposals made to Mosadeq February 20. We endeavored explain significance,

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[1] Transmitted in three sections; also sent to London.

[2] Herbert Hoover, Jr., arrived in Tehran as scheduled on Oct. 17, and was presented to the Foreign Minister on Oct. 18, at which time it was agreed that he would have no conferences with Iranian officials until the Shah and Zahedi returned from Isfahan on Oct. 20. On Oct. 21 Henderson presented Hoover to the Prime Minister, at which time Hoover gave Zahedi a document detailing the situation concerning the global supply and demand of Middle Eastern oil. The text of this document was transmitted to the Department in telegram 949, Oct. 22. (888.2553/10–2253) At this meeting, it was also arranged that on Oct. 22 Hoover would meet with the Prime Minister's newly-appointed oil advisory committee to assist it in preparing as soon as possible a report for the Prime Minister setting forth facts concerning the international oil situation. (Telegram 948, Oct. 22; 888.2553/10–2253)

Ambassador Henderson reported on Oct. 24 that Hoover, at that point, had had two meetings with the Iranian oil committee. At the first, Oct. 22, the committee read Hoover's paper; at the second, Oct. 23, the committee asked Hoover questions that his memorandum had raised. (Telegram 970; 888.2553/10–2453) On Oct. 26, Henderson reported that at the third session, held Oct. 25, the committee had concluded its factfinding task and would report to the Prime Minister. Hoover and the committee agreed that the heart of the problem was to work out a formula which reconciled Iran's nationalization law with practical operating problems. The Ambassador concluded that he and Hoover expected to have another meeting with Zahedi following his receipt of the committee report. (Telegram 978; 888.2553/10–2653) pointing out, however, this irrelevant since proposals February 20 out-moded by events and changes in situation.

2. During ensuing discussions Prime Minister said any solution which would put Iran on 50-50 basis sure create difficulties for government. Iranian people had been led believe such formula unfair to Iran. Iran in different position from other ME oil countries. Foreign capital investment in Iranian oil industry had been repaid many times by exorbitant profits realized by AIOC. Iranian oil industry should be considered as going concern already paid for from these profits. Such great profits over long period time had not been made from oil other ME countries. Hoover pointed out Iranian oil could find its way again to world markets only on commercial basis. Potential distributors this oil could not consider history concession in determining how much they could pay for oil. No matter how much profits AIOC might have realized in past these distributors could not as business enterprises pay more for Iranian oil than for that available in other ME countries. It might be possible in drafting agreement avoid spelling out any 50-50 formula. In place such formula there might be proposition to effect that Iran must receive no less income per ton for its oil than most favored nation in this respect of ME. After further conversation Prime Minister appeared reluctantly and unhappily acquiesce in our expressed views that Iranian oil could not re-enter world markets in substantial quantities unless distributors could obtain it as cheaply as they could oil from other ME countries.

3. Prime Minister said difficult though it would be for Iranian Government satisfy public with solution involving 50-50 formula it would be still more difficult to satisfy it with settlement which would place control extracting and refining in hands foreigners. Hoover agreed this would be one of most difficult areas negotiation. He thought, however that with goodwill on both sides solution could be found through study and negotiation whereby distributors would have sufficient control within framework nine-point law of extraction and refining processes to give them necessary assurance that they would receive steady flow oil and products of volume, variety, and quality needed to meet fluctuating demands their customers. Prime Minister made several suggestions among which was one to effect that NIOC would contract to sell specific amount oil and oil products to distributors over term years, distributors to be authorized to enter Iran for purpose of extracting and refining. Hoover said there variety ways bridging problem of control. They might, however, more appropriately be discussed during course negotiations. Iran should understand in advance, however, that distributors must have sufficient control production, refining and de-

livery to enable them rely upon steady flow from Iran such oil and products as they may contract to distribute.

4. Prime Minister repeated it would be difficult enough for any government face Iranian public with solution involving 50–50 treatment re price and relinquishment to extent at least by Iran of its control over its oil industry; it would be too much however for his or any other government to enter into agreement which would involve open or disguised return to Iran of AIOC. It would serve no purpose therefore for Iran enter in negotiations looking forward to return AIOC in any form. Iranian Government might agree to sell its oil and products to group distributing companies, including AIOC, and might even be able to give certain operating privileges in Iran to such group. AIOC however must not be more than minority member in such group and must not be in position dominate it. During discussion which followed Prime Minister said this statement should not be interpreted as indication he anti-British or that Iranian Government or people were inherently anti-British. His government desired friendly relations in future with UK and he was sure that although Iranian people were still in somewhat emotional state re British as result Mosadeq propaganda of last two years, this emotion would gradually subside. Any attempt bring AIOC back to Iran even with restricted rights would not be in interest of present or future relations between UK and Iran. Hoover said this particular point could more appropriately be considered during negotiations. In his opinion however it would not only be difficult but might be unwise from point view Iranian interests for Iran to object to participation by UK companies to extent at least 50 percent in any distributing group that might be formed. Prime Minister thought that it might be possible for AIOC and other British companies together to represent 50 percent of new company but he indicated this was matter which he would like to consider and discuss later, perhaps during or in advance of negotiations. He wished make clear however that AIOC should have at most only minority interests in any international group of distributors and should not be placed in position to dominate such group. Such group in his opinion should include as many as possible of major distributing companies now operating in Middle East.

5. Prime Minister referred to vexatious problem of compensation. He did not see why if Iran should agree sell oil on 50–50 basis it should also be compelled pay compensation, particularly if Iranian counterclaims against AIOC should be extinguished. We obtained impression from remarks made by both Ministers it their thinking that distributing group should absorb any compensation which its members might agree with AIOC to be due. They expressed view that if AIOC was to be participant in this group and Iran counter-

claims against AIOC should be taken into consideration, amount compensation should not be very great. Hoover said this matter also seemed be one for discussion either between interested companies or during negotiations. Prime Minister however continued show interest in matter compensation. During conversation on this subject question developed as to manner in which negotiations might be approached and as to who should participate. Both Prime Minister and Foreign Minister seemed be of opinion that, in case Iran should decide that it prepared deal with international group of distributing companies, best procedure might be for these companies to work out agreement among themselves as to kind of proposals to be made to Iran, and then for their representatives to approach Government Iran or NIOC with these proposals. If negotiations could take place between Iran or NIOC on one hand and representatives of the international group distributors on other, British Government would not be involved except as protector of interests AIOC other British companies and Iranian negotiators would not be compelled face negotiators AIOC. They seemed think that negotiation this kind would serve remove dispute from field Anglo-Iranian relations and reduce it to status commercial negotiation with international group distributors. Compensation problem which had so seriously disturbed relations between UK and Iran would thus be disposed of privately by agreement between members group of distributors.

6. In view of repeated concern expressed by Prime Minister at public reaction to agreement giving foreign companies rights to operate in Iran, Hoover asked Prime Minister if in his opinion it would be easier for government as matter public relations to negotiate with group distributors through intermediation International Bank. Would public reaction Iran be less unfavorable to solution involving conclusion agreement with International Bank which would make parallel agreement with group distributors? Hoover stressed in asking question he did not know whether charter Bank would permit it to act as screen between Iran and group of distributors; whether Bank would be willing to act in this capacity; and whether intermediation of Bank would be agreeable to Government US, Government UK, AIOC or potential members distribution group. Prime Minister said he thought it wld be much easier for Iranian Government if negotiations could be conducted through International Bank instead of direct with group companies. Iranian public in his opinion would find it less difficult to reconcile itself to agreement in which International Bank acted as middleman rather than to one involving granting by Iran of certain operating rights in Iran direct to companies foreign nationality.

7. Foreign Minister after private discussion with Prime Minister said that within next day or two he would prepare brief informal unsigned statement containing outline of current Iranian thinking re oil.[3] If Shah and Prime Minister would approve he would give it to Hoover who would be at liberty show it to Secretary of State or, if considered advisable, to British. It should be understood however that such statement was to be treated as confidential; it was not to be considered as commitment on part Iranian Government since it would be subject to change until such time as basis could be laid for negotiations. His purpose in giving it to Hoover would be merely to aid him in describing present atmosphere re oil in Iran. Statement would be only general character; it would omit many details which had been touched upon orally. Prime Minister and Foreign Minister stressed all conversations with Hoover and myself had been of exploratory character. No commitments sought or given by either side. Hoover agreed, reiterating he had no authority intermediate or seek solution problem. His mission one of fact-finding for Secretary State. He intended however while in London to describe to British privately and frankly situation re oil as he had found it in Iran. If it should appear he might be of further service he prepared return Iran. His tentative intention depart for London KLM plane leaving Tehran morning November 1.

8. It was agreed that if press should inquire re discussions which had taken place during course dinner reply would be that Hoover and I had continued our discussions with Prime Minister and Foreign Minister and that Hoover would probably complete this stage his fact-finding mission during next few days and would leave for US to report to Secretary State, stopping in London en route for fact-finding purposes.

HENDERSON

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[3] See *infra*.

No. 378

888.2553/11-253 Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET PRIORITY TEHRAN, November 2, 1953—2 p. m.

1022. For Bedell Smith, Byroade, Phleger only. Following is translation document handed Hoover and me by Foreign Minister evening November 1:

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[1] Repeated to London eyes only for the Ambassador.

(Embtel 1020 November 2; repeated London 302[2]) (translation from Persian).

"The following points are by no means binding on the Iranian Government. They are for information purposes only:

1. After the former oil co (i.e. AIOC-translator's note) started to operate in Iran, and as it organization expanded, the directors of the company uniformly had colonial aims in Iran and their behavior was of a nature that incurred public odium. Interferences by the agents of the former oil company in the affairs of Iran and their connection with doubtful characters caused trouble for Iranian officials and created all kinds of difficulties. Their influence was so great even in England and among British representatives in Iran that by deluding the minds and concealing the facts they prevented the British Government from getting a true picture of conditions in Iran and from carrying out a policy that would be in the interest of both countries. Consequently it was never possible to establish the relations between the two countries on a basis of mutual respect and sincerity. On the contrary, however, conditions were always conducive to misunderstanding and tension. Also from a financial and economic standpoint the interests of the Iranian Government were always being adversely affected, and the company failed to carry out its rightful and moral obligations to its personnel and to the laborers. In view of these facts it is impossible for the former company to return to Iran.

2. It seems to the government that negotiations for Iran sale, transportation and distribution of oil should be initiated with the representatives of a group of large international companies having had previous experience. Such group should purchase oil from the National Iranian Oil Company and undertake to handle its transportation and distribution. The former company may take part in this group, but not to such extent that it could own the majority of the shares. If other British companies desire to join the group, their total shares must not exceed fifty percent. On the conclusion of an agreement and during the first years when the flow of Iranian oil to the market has not been restored to a normal state these companies must extend considerable financial assistance to the Iranian Government, to be gradually reimbursed out of revenues accruing in future years. Also these companies must assume certain obligations to purchase refined oil so that the Abadan refinery may operate to its productive capacity.

3. As to the question of compensation the companies purchasing oil and undertaking to transport and distribute must make an ar-

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[2] Telegram 1020 summarized the conversation during the meeting at which Entezam handed the document to Hoover and Henderson. (888.2553/11-253)

rangement with the former company for a settlement that would obviate further anxiety in this respect. It goes without saying that no claim for loss of profits should be taken into consideration.

4. The Iranian Government believes that it would be desirable for the success of the work if the International Bank were to act as intermediary in the conclusion of an agreement between Iran and the group of companies taking over the transportation and distribution and undertake to examine the accounts and supervise the enforcement of the agreement.

5. In order that companies in charge of transportation and distribution may be sure that the NIOC will be able to meet its obligations in point of quantity and quality, a solution agreeable to both parties will be found through negotiations between the two parties.

6. An agreement between Iran and the companies for transportation and distribution must be drawn up in such a manner that at no time in the future Iranian interests would be adversely affected, i.e., whenever the price of oil increases, the Iranian Government should benefit from such increase and that its income should at no time be less than the maximum accruing to others."

Henderson

No. 379

888.2553/11–553: Telegram

The Ambassador in the United Kingdom (Aldrich) to the Department of State[1]

SECRET London, November 5, 1953.

1945. Hoover arrived London from Tehran morning November 4 and reviewed Iranian oil problem with Ambassador and Embassy staff. At invitation Foreign Office, Hoover and Embassy officials attended afternoon meeting with Pierson Dixon, Chairman and R. Allen, Foreign Office, also Maude and Butler Ministry Fuel and Power; Rowan and Armstrong Treasury; Fraser, Jackson and Gass AIOC.[2]

Hoover's statement summarizing experience Tehran stressed continued complexity situation and Persian confusion regarding appropriate course action. He warned against expecting rapid progress on determining useful specific proposals. Basic point of emphasis was intensity of Iranian feeling against AIOC which Hoover said precluded, in his and Ambassador Henderson's judgment, solution providing for re-entry AIOC into Iranian oil industry except as minority member of consortium. On positive side was fact Persian desire for settlement strong and they have great appreciation seriousness their position.

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[1] Repeated to Tehran.

[2] The record copy of the minutes of this meeting is in a folder entitled "Minutes of Meetings at Foreign Office on Iranian Oil". (888.2553/4–554)

After introduction on foregoing lines, paraphrase Tehran's 1022 November 2 distributed. Reaction thereto obviously preliminary but one of general disappointment. More considered views expected meeting November 5. Gist of British comment was on inconclusive and confused nature of paper. They strongly restated their position diplomatic relations should be established soonest and prior to any negotiations. In this connection they expressed pleasure Secretary's statement[3] and Hoover emphasized Ambassador Henderson's efforts this regard. Dixon said simultaneous agreement on "principles" and resumption relations as in memorandum not in accord British views. Had in mind going back and then seeing what could be done get company back. Fraser said consideration of solution starting from premise AIOC must be removed or reduced to minority position because of unproved charges misconduct set bad precedent for elsewhere Middle East. He too had thought correct approach was for Britain and Iran be friends again and then talk about oil matter which responsible for disturbed relations.

Hoover explained that Iranian paper only starting point and could be substantially changed in many respects. In his opinion what was required at outset was some kind of general statement regarding principles from both governments. Details compensation, management, price, off-take, etc., to be left to technical negotiators.

British wondered whether statement sufficiently indefinite to be acceptable and yet leave open questions of consortium, practical management by foreigners, etc., would be possible.

Hoover meeting Eden at lunch today and will resume meeting with government and AIOC this afternoon with smaller meetings contemplated thereafter.

ALDRICH

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[3] On Nov. 3 the Department informed the Embassy that at a press conference that day, the Secretary stated that Hoover had encouraging conversations in Tehran with the leaders of the Iranian Government; that there was evidence of renewed friendliness between the Iranian and British Governments; and that the United States hoped that this new atmosphere would lead to the resumption of diplomatic relations between the two nations. (Telegram 1117; 888.2553/11-353)

No. 380

888.2553/11-553: Telegram

The Ambassador in the United Kingdom (Aldrich) to the Department of State[1]

SECRET LONDON, November 5, 1953—8 p. m.

1965. Ambassador and Hoover lunched today with Eden, Dixon, Maud and Rowan. British restated emphatic desire for resumption diplomatic relations with Iran prior to any negotiations. They further regarded Iranian memorandum (Tehran's 1022) entirely unacceptable, especially first paragraph and emphasized their complete approbation former conduct AIOC in Iran. They expressed concern at proposed minority position for AIOC in particular or British in general and indicated 51 percent British participation as minimum in consortium. Despite friendliness of atmosphere, no doubt about firmness of British position.

Ambassador and Hoover volunteered US Government had in no way urged on Iranians any American participation in consortium, notwithstanding some press reports to that effect.

At subsequent meeting Foreign Office with same group as November 4 meeting,[2] British stated memorandum unacceptable and they would prefer not to have it. They insisted on handing it back, their position being that they had never seen it. They reiterated resumption diplomatic relations must precede negotiations whether on principles or details. Their attitude based largely on view that any negotiations, even on principles, will undoubtedly be prolonged and, therefore, best place relations on normal footing first.

British proposals emerging from today's meeting now being put to Eden for his views and will be telegraphed soonest to Ambassador Henderson for his comments.[3] In substance, proposals represent case for resumption relations prior to negotiations and embody conciliatory message from Eden to Zahedi.

ALDRICH

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[1] Repeated to Tehran.

[2] The record copy of the minutes of this meeting is in a folder entitled "Minutes of Meetings at Foreign Office on Iranian Oil". (888.2553/4-554)

[3] See *infra*.

No. 381

888.2553/11-653: Telegram

The Ambassador in the United Kingdom (Aldrich) to the Department of State[1]

SECRET LONDON, November 6, 1953—1 p. m.

1969. Following suggested and drafted by British and approved by Eden, Rowan and Maud with request it be transmitted by Hoover to Ambassador Henderson:

"After two London discussions with representatives Foreign Office, interested Departments and AIOC, the British have made clear that, in their view, to attempt agree on principles at this stage and at long range would be a disservice both to resumption relations and to eventual production mutually satisfactory solution. The evolution of principles entails resolving so many complexities that much time would be required. British attitude is that resumption relations should be secured forthwith, and that subsequent direct negotiations would be more likely to produce a solution.

2. It therefore appeared that to leave the memorandum (Tehran's 1022[2]) with British would not be helpful, and Hoover has not done so.

3. It became clear also that there was misunderstanding between British and Iranians about connecting resumption of relations with opening of oil negotiations. British state they want former on its own merits, because it is wrong that this estrangement between two traditionally friendly countries should exist. It would thereafter be open to Iranians to suggest oil discussions when they like, and British are quite ready to fall in with their wishes.

4. Eden is therefore considering sending Zahedi a message (and/or making a statement in House of Commons) which he hopes would assist Zahedi to agree to exchange Ambassadors forthwith. It would be in following term.

Begin. 'I am very glad to know that you share my wish for a resumption of diplomatic relations as soon as possible. Obviously our countries should be in normal and direct touch. Let me say at once that there is no difference between our governments that cannot be solved with good will. Certainly it is my sincere belief that a fair and just solution to the oil problem can be found. I should like to endorse the wish expressed recently by Mr. Entezam, the Minister for Foreign Affairs, for a solution based on the twin principles of justice and equity. This is exactly the kind of solution that we want. The problem is complex and will require study and time to solve, and we are perfectly ready to leave the choice of time for discussing it to you. I simply feel that for us to be in direct touch will help us both when that time comes. I suggest, therefore that, by simultaneous announcement in Tehran and London, at a time to be agreed on between us, we announce our decision to exchange Ambassadors again without delay'. [*End.*]

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[1] Sent to Tehran and repeated to the Department.

[2] Document 378.

5. The message would have to be presented formally by Swiss Minister. But any preliminaries would be left to you.

6. British would greatly welcome your comments before making up their minds. Do you think that message in those terms, followed perhaps by statement in House, would be enough to bring Zahedi agree resume relations before oil talks? If not, have you any alternative suggestion likely to achieve this object?"

ALDRICH

No. 382

888.2553/11-753: Telegram

The Ambassador in the United Kingdom (Aldrich) to the Department of State[1]

SECRET PRIORITY LONDON, November 7, 1953—9 p. m.

2002. In meeting with working group including Armstrong of Treasury, Frye of Foreign Office, Butler of Ministry Fuel and Power this morning,[2] Hoover and Embassy representatives encountered very reasonable attitude. While views of British group not authoritative they no doubt influential in formulation of UK government views.

Above group, [garble] maintaining that [garble] AIOC should go back to operate oil industry in Iran, thus virtually disposing of compensation problem, admitted this possibility remote, and therefore consortium only practicable solution. Moreover consortium would have advantage as regards sharing both capital risk and production cutbacks elsewhere. Undoubtedly this thinking considerably in advance of that of AIOC directors but British group thought AIOC might be brought around to this view, especially after diplomatic relations established permitting direct British appraisal of situation Iran.

British advanced idea that company would attach considerable importance to regaining title to properties in Iran prior to selling participation to consortium. We queried whether this was matter of form or substance and British replied while principle obviously at stake they did not want us to think they were inflexible on this point.

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[1] Repeated to Tehran.

[2] The record copy of the minutes of this morning meeting is in a folder entitled "Minutes of Meetings at Foreign Office on Iranian Oil". (888.2553/4-554)

Detailed discussion role IBRD ensued with general agreement on both sides that Bank participation would be desirable for political reasons and would facilitate oil settlement, operation of oil industry and other possible economic development Iran. Some doubts expressed whether introduction of Bank might involve too many members in consortium. In this discussion and at other points British stressed their belief small number in consortium desirable.

During talk Hoover conveyed to group gist Tehran's 316 to London[3] and stressed that US appraisal of situation in Iran was that major AIOC participation was unacceptable. British group did not appear take issue although their views may not be wholly representative. At same time their views and attitude impressed us as being realistic.

Hoover also gave British paraphrase Tehran's 314 to London[4] which they appeared to find encouraging, although we agreed with them that detailed discussion this point should await receipt Henderson's reaction to message contained our telegram 56[5] to Tehran.

At afternoon meeting[6] presided by Dixon of Foreign Office and attended by Maud and Butler of Ministry Fuel and Power, Armstrong of Treasury, Gass and Snow of AIOC, and representatives from Foreign Office and Embassy, Hoover (acting on suggestion put forward by British working group at morning meeting with view to assisting their relations with AIOC) expressed belief return AIOC would have been desirable solution but in actual fact was no longer possible because of present situation Iran.

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[3] On Nov. 6 Ambassador Henderson warned that the British demand for 51 percent AIOC participation in an oil consortium would be totally unacceptable to the Iranians. Henderson thought no Iranian Government could survive if it agreed to such a demand, and he was depressed at the thought that the British were hoping to gain American support for their position. (Telegram 316 to London, 888.2553/11-653)

[4] In telegram 314, Nov. 6, Ambassador Henderson suggested, after further study of London telegram 1965 (Document 380), that if the British were contemplating proposals for the resumption of relations prior to negotiations they might incorporate concrete suggestions in the text of a joint communique announcing the resumption of relations. Henderson then proceeded to suggest a possible text which could be used to announce the resumption of relations. (Telegram 314 to London, repeated to the Department as 1050; 888.2553/11-653)

[5] Printed as telegram 1969, to London, Nov. 6, *supra*.

[6] No record of this meeting has been found in Department of State files.

Group then discussed handling of Iranian memorandum (Tehran's 305[7]) in light Tehran's 313.[8] It was decided to submit to Ambassador Henderson, for his comments, a redraft of proposed statement to Entezam contained in paragraph 2 of Tehran's 313, with understanding final decision in this regard would not be taken until receipt Henderson's comments on this draft and on earlier British draft transmitted our telegram 56 to Tehran.

Subsequently Foreign Office supplied Embassy with following which has been seen and approved by Eden:

"Mr. Hoover told Mr. Eden that he had been authorized by the Persian Government to inform him of certain preliminary views reached by the Persians on the principles of an oil settlement and contained in a memorandum.

"Mr. Eden said he was very glad to hear that the Persians had taken an initiative in this matter. But on hearing from Mr. Hoover the substance of their memorandum, Mr. Eden said at once that there was much in it which it would not be possible to accept. It seemed to him that discussion of this complicated problem was bound to take much time. The establishment of mutually acceptable principles, as preliminary to discussions on details, was frequently the most difficult part of any negotiation. Mr. Eden was sure that, with goodwill, a satisfactory solution could be found. But he felt that for this to be done, direct contact was required, and this was why he was more convinced than ever it was essential to restore diplomatic relations as soon as possible."

In discussion of foregoing, Hoover stressed urgency some word being passed to Iranians regarding their memo, particularly in view reports that will undoubtedly be appearing Tehran press now he was leaving London for Washington.

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[7] Printed as telegram 1022, Document 378.

[8] In telegram 313 Ambassador Henderson reported that the Iranian Government would be extremely discouraged if it were informed that its memorandum, transmitted in Document 378, was so unacceptable to the British that they had handed it back to Hoover, or had displayed such an attitude during the preliminary conversations that Hoover had decided it was preferable not to submit it to the British. Henderson went on to say that if the British insisted upon refusing to consider the Iranian memorandum as the opening move in the direction of negotiations, he suggested that he be authorized to inform the Foreign Minister as follows:

"During conversation with Eden, Hoover showed him memo. After examining it Eden handed it back to Hoover with remark that he preferred it not be placed in files Foreign Office since in his opinion it would not serve as suitable basis for discussions between British and Iranian Governments. Eden pointed out that if British Government would undertake discuss memo of this kind it would be compelled to take exception to number passages contained therein, particularly those critical AIOC. Eden said that his perusal of memo had, however, served one useful purpose, namely, it confirmed his conviction that resumption of diplomatic relations must precede discussions re oil. Only after resumption of relations in his opinion would it be possible for two governments to have opportunity frankly and directly to explore possibilities of method and content of settlement." (Telegram 313 to London; 888.2553/11-653)

Meeting agreed Hoover would explore informally with IBRD question its participation, on understanding such talks should be highly confidential.

Re press, it was agreed neither Foreign Office nor Embassy would issue statement but in reply to questions would say Hoover has come to London in continuation his mission, has been exploring problem here, and is now going back to report to Secretary State. In answering queries point will be made that problem so complicated that he will undoubtedly be going back and forth very freely between Washington–London and Tehran in coming months. No reference to fact-finding nature his mission or to resumption diplomatic relations will be made.

After meeting Hoover called briefly on Eden and expressed appreciation for understanding with which British had approached problem notwithstanding difficult period they had been through. Eden, like British representatives with whom Hoover has been conferring, declared they most grateful for Hoover's assistance and in fact this very evident from cordial atmosphere prevailing throughout talks.

ALDRICH

No. 383

888.2553/11–953: Telegram

The Secretary of State to the Embassy in Iran[1]

SECRET NIACT WASHINGTON, November 9, 1953—7:11 p.m.

1153. For Ambassador from Hoover. My analysis re Iran memorandum situation in London follows, all or any part of which in your discretion you may communicate to GOI:

1. Am convinced that Iranian memorandum and its submission to HMG was absolutely best thing that has happened so far in oil situation from Iranian viewpoint. Fact that Iran took aggressive initiative was of great psychological importance. While HMG appeared highly shocked at first paragraph and in effect could not take cognizance of it, nevertheless it is having most salutary effect on their thinking.

2. Am convinced HMG actually have realistic view possibility AIOC returning to Iran which coincides ours, but HMG has political problem re prestige in general and AIOC in particular; and while HMG privately accepts our assessment this situation in Iran, they publicly must evaluate for themselves.

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[1] Repeated to London. Drafted by Hoover and approved by Byroade.

3. Have been assured here we will support GOI in opposing (a) more than 50 percent British participation, (b) more than minority position for AIOC and (c) any effort of AIOC to regain title prior to setting up consortium. However US wishes if possible avoid appearance of forcing American participation at expense of British interests.

4. I personally convinced that resumption of relations should precede oil discussions, as agreement on principles is such complex matter that doubtful if any agreement could be reached without direct contact. However will be much easier to handle since HMG now knows GOI unmistakable position re AIOC.

For London: Please advise HMG we hope they will agree Henderson can approach Iranians along lines suggested urtel 57 rptd Department 2002. If HMG agrees, inform Henderson niact.[2]

DULLES

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[2] The Embassy in London responded on Nov. 9, reporting that the British wanted Henderson, in his conversation with Foreign Minister Entezam, to take the following line: 1) give Entezam the explanation about the Iranian memorandum contained in telegram 2002 (*supra*); 2) say that Eden was prepared to send Zahedi a message along the lines of paragraph 4, telegram 1969 (Document 381). Henderson was also to say that Eden was ready to make a later statement in the House of Commons on the same lines, if the response was favorable to the message contained in telegram 1969. In conclusion, the Embassy wanted Henderson only to sound out Entezam on the British proposal to see if the Iranians would be receptive (Telegram 2026; 888.2553/11-953)

Henderson reported on Nov. 10 that he had seen the Foreign Minister and followed suggestions 1 and 2 in telegram 2026 from London. Entezam replied that he wished to make no comments until he had seen the Shah and the Prime Minister. Later that day, Henderson had an audience with the Shah, who had just spoken with Entezam. The Shah proceeded to ask Henderson about the details of the British offer. The Shah agreed with the logic of the British proposal to resume diplomatic relations prior to negotiating an oil settlement, but he was worried about the political reaction in Iran. The Shah pledged, however, to try to reach a decision in concert with the Foreign and Prime Ministers as to what to do as soon as possible (Telegram 1076; 888.2553/11-1053)

No. 384

888.2553/11-1253: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET PRIORITY TEHRAN, November 12, 1953—11 a. m.

1088. 1. Paragraph 2 this telegram represents my summary of statements made to me by Foreign Minister during course our conversation at noon November 11. Copy this summary was given to Foreign Minister at his request. Both he and Prime Minister have approved it as accurate reflection his views as to what next move in direction resumption relations might be (Embtel 331, Department 1087, November 12).[2]

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[1] Sent to London as telegram 332 and repeated to the Department.

2. "He had been giving much thought to the matter of the resumption of diplomatic relations and had had several conversations on this subject with His Majesty and the Prime Minister during the last two days. All agreed that early resumption was desirable. The problem, however, was to find a way of bringing this about without alienating large sections of the Iranian public which would be sure to interpret resumption in the absence of some indication of an advance in the direction of the settlement of the oil dispute as capitulation on the part of Iran to Western pressure. It was for this reason that several weeks ago the government had decided that an agreement on the principles of an oil settlement should precede or accompany the resumption of relations and had issued a public statement to that effect.

"It would be extremely difficult particularly after the issuance of such a statement for the government, without being able to show at least by some progress towards an oil settlement, to announce the resumption of relations. He was wondering what Mr. Eden might think of sending at once to Tehran an emissary who had the confidence of the British Government for the purpose of discussing this matter informally and frankly with the Prime Minister and himself. Given a friendly atmosphere and a willingness on the part of each side to understand the problems of the other, a way might well be found during the course of such discussions whereby relations could be resumed without resultant embarrassment to either government. He thought it might be preferable until such time as an agreement had been reached, and a joint communiqué had been prepared, for the despatch of this emissary and for the ensuing conversations to be treated as secret. If there should be a leak, it could be stated that the emissary had been sent on the suggestion of the Government of Iran for the purpose of exchanging views with regard to the resumption of relations between the two countries.

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[2] On Nov. 12 Ambassador Henderson reported on an additional conversation with the Foreign Minister. Entezam again enlarged on how difficult it would be for the Iranian Government to resume relations with the British without being able to show the Iranian public some evidence that there had been an advance in the direction of an oil settlement. He again referred to the possibility that the British might send an emissary to Tehran to canvass the situation. Henderson said that he had already indicated that the British were unwilling to negotiate or even discuss substantive matters prior to the resumption of relations. Moreover, Henderson thought the British would be unwilling to send a representative to Tehran to discuss a resumption of relations unless they had assurances that such a mission would be a success. Henderson went on to say that he wished to be able to advise London without too much delay about Entezam's reaction to the idea of Eden's dispatching a message. Entezam said he would like his reaction to be expressed through a counter-suggestion that the British Government immediately send a representative to Tehran to exchange views regarding a resumption of relations. He asked Henderson if he would be willing to summarize Entezam's remarks in a telegram to London and to show the draft to him and Zahedi during the course of dinner which Henderson was to have with them that evening. The Ambassador presented the statement to Zahedi and Entezam that evening, and they agreed it was an accurate reflection of their views. They also said they hoped the British Government would be willing to send a trusted emissary to Tehran for discussions. (Telegram 1087; 888.2553/11-1253)

"If Mr. Eden should think well of this suggestion, the emissary could be sent at once without further formalities, or, if Mr. Eden would prefer, after a more formal suggestion in this regard had been sent by the Iranian Government through the Swiss Legation".

HENDERSON

No. 385

788.55/11-1453 Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET PRIORITY TEHRAN, November 14, 1953—11 a. m.

1102. 1. During each my last four conversations with Shah, that is, those on October 14, October 22, October 27 and November 10, he has continued to press matter of future Iranian defense forces and to insist that early decision be made so there would be minimum amount delay in preparing clearcut defense plans including those for rearming, reorganizing, and training defense forces. He has also on several occasions sent me inquiries this regard through Ala, Minister Court (Deptel 979 October 10 (repeated London 1921).[2]

2. During some these conversations Shah has taken rather positive tone. For instance, in that October 14, he told me decision as to whether Iranian Army is to be reorganized, re-equipped, and retrained so that it would serve:

(a) Merely as police force to maintain internal order, or

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[1] Transmitted in two sections.

[2] In telegram 979 the Department informed Ambassador Henderson that under U.S. policy objectives stated in NSC 136/1 (Document 240) the Iranian military assistance program did not permit the development of strong withdrawal-delaying action defenses. However, the Department suggested that if Henderson believed that there were good reasons favoring a revision of these objectives, the Department would consider recommending a change in policy objectives to the National Security Council. The Department also warned that military assistance funds for fiscal 1954 were extremely limited, and that the Department would consider such a request only if Henderson believed additional assistance would have a marked impact upon Iran. (788.55/9-2953)

(b) Both as police force and defense force capable delaying progress of enemy if Iran should be invaded was one which would have profound effect not only on future army but also on that of country. It would not be possible keep Iranian Armed Forces and people in general perpetually ignorant re type decision made since developments emanating from that decision would eventually become clear. If decision should be that outlined in (a) above patriotic Iranian would become discouraged and strength of elements anxious for Iran to fall behind Iron Curtain would be enhanced. What pride could army officers have in their organization if they should learn it not being prepared put up at least holding defense against foreign invasion? How much respect would Iranians have for their armed forces if they should come to realization these forces were not expected defend their country from invasion? As result of preoccupation of country with Mosadeq's Nationalistic movement, attention had been diverted during recent years from army. If however Iranian life should become again fairly normal it would not be possible long to conceal from armed forces and eventually from Iranian public kind of army Iran has to have. If it should become known that the army was not even to try defending country, could Iranian people have reasonable grounds for hoping save Iran from inroads Communism?

Without such hope, could they be expected put up really effective struggle against Communist activities? Was it not too much to expect that people with constant threat of international Communist aggression hanging over their heads against which they would have no means defend themselves would exert their utmost efforts to stamp out domestic Communism?

3. During my various conversations with the Shah re future army I tried ascertain his views re number related subjects among which following might be mentioned:

(a) Status military Mission and MAAG. I pointed out that if army was to be reorganized and rearmed for purpose enabling it engage in holding action against aggressor from north it would be necessary for it have entirely different kind training. Otherwise, it could not possibly make use of modern equipment or engage in modern warfare operations. In order for it receive such intensive training it might be necessary for ARMISH or MAAG or perhaps both expand somewhat so that training could be carried on at divisional and in some instances perhaps at regimental levels. Would he and government be prepared for such expansion? Would they permit American officers supervise training in various geographical areas at lower levels? Shah replied in affirmative. He said if training was for purpose defending country he would be glad see it extended to lower echelons and be confident government would share his views this respect. I asked whether government would be willing renew present ARMISH contract. At present ARMISH carrying on in Iran under terms of agreement which had expired and which had been extended for indefinite period merely on basis gentlemen's agreement reached with Mosadeq some 18 months ago. This situation not satisfactory to US Department of Defense. Shah said US Government willing retain ARMISH in Iran under these conditions during regime Mosadeq. Why therefore could it not do so during regime more friendly to West? Why raise question of Majlis new agreement? In his opinion preferable let present agreement continue for indefinite period of time. If new government should take over which was unfriendly to West, position ARMISH would be untenable in any event. He hoped US Government would not press this particular point. In his opinion if training carried out through MAAG no new contracts necessary.

(b) Defense arrangements between Iran and neighbors. I said if Soviet Union should attack Iran and Iran should engage in delaying action it might require some time before western powers could come to aid Iran. Defense Iran would be facilitated if it would be in position receive certain assistance at once from its neighbors. Such assistance could be extended more quickly and effectively if arrangements therefor had been made in advance of hostilities. What would be Iran's attitude re making such arrangements? Shah replied Iran of course must have defense arrangements with some its neighbors if it was to have any chance of escaping enemy occupation. Until Iran however would have army capable of putting up some kind defense it useless even discuss making such arrangements. At present for instance Turkey had several divisions facing Soviet Union in area adjacent to Azerbaijan, whereas Iran had only few scattered contingents. In such circumstances it would be humiliating for Iran engage in conversations with Turkey re common defense their frontiers against Soviet aggression. Iran would be prepared as soon as it possessed what might be called defense forces to enter into conversations with neighboring powers re defense providing such powers not affording military bases to any great power. I asked if I was to infer he would not be willing enter into defense arrangement with Iraq because of presence British air bases on Iraqi territory.

He replied if in such circumstances Iran should enter into defense arrangement Iraq, Russia would be in position charge Iran plotting with great powers against it. Similar situation prevailed re Saudi Arabia. I took exception this remark pointing out US had no military bases Saudi Arabia. I said if he to permit himself be swayed by fear charges Russia might make, it might be preferable drop idea of creating defensive army since Russia would certainly register objections to such development. If Iran should be attacked valuable assistance might come to it through Iraq. I was surprised therefore learn he shrinking from idea military agreement with Iraq because latter had kind of military arrangement with British which might facilitate speedy extension aid to Iran. Reply Shah somewhat vague. It was to effect that if combined forces Pakistan, Iraq and Turkey could be strong enough effectively to discourage Russian aggression he might consider entering into military arrangements with all three of them despite Russian protest.

(c) Attitude of Iranian Government re future Iran army. In reply my queries Shah told me he had discussed his views re what future Iranian armed forces should be with Prime Minister and Minister Defense who fully shared them. There no disagreement this matter between Iran Government and himself.

(d) Oil problem. I told Shah during last conversation that I had not as yet made recommendations to US Government based on my conversations with him re future Iranian Army because it seemed to me it would serve no useful purpose to make long range plans any kind for Iran in absence more assurances than I at present possessed that oil problem would be settled within next three or four months. If such problem not settled, Iran would have difficulty supporting army capable of maintaining local law and order. Without settlement it certainly could not support even with generous US assistance army capable delaying advance aggression from north. It seemed to me therefore reorganization and re-equipment of army should await settlement oil problem. Shah expressed deep concern. He said he hoped oil problem would be settled within next three or four months. It would be mistake postpone decision re future armed forces until settlement actually effected. He knew from experience how slow governments, including that of US, worked. If decision should be made now by US Government to help Iran in achieving armed forces capable of delaying action, it be several months in any event before needed supplies, equipment, training personnel etc. would be moving towards Iran. If in meantime should become apparent no oil settlement possible, execution of decision could be stopped without any great loss to US. He hoped therefore decision could be taken at once so machinery both in US and Iran for carrying it out could be set in motion.

4. I hope after discussions with key members Embassy staff and with General McClure be able make recommendations by telegram in near future.

HENDERSON

No. 386

888.2553/11-1453: Telegram

The Ambassador in the United Kingdom (Aldrich) to the Department of State[1]

SECRET LONDON, November 14, 1953—1 p. m.

2099. Foreign Office has asked us to say, re your telegrams 1085,[2] 1087,[3] and 1088 and our telegram 2084, repeated Tehran as 60,[4] that Eden is most grateful for your efforts, and believes your answers to Persians were right in every particular.

He had hoped that his proposed message to the Persians in paragraph 4 our telegram 1969, repeated Tehran 56,[5] might suffice permit them agree restore relations and believes it would be difficult go further meet Persian point view. Nevertheless, British are urgently considering whether some formula about oil, likely be found acceptable to Persians without giving away essential British principles, could be evolved and presented you for transmission Entezam. British will let us know result as soon as possible, but we must emphasize they not hopeful being able go much beyond message already proposed. We understand if they able evolve formula, it would be their intention seek your comments on it first and they would welcome any suggestions you might care offer about phraseology calculated to appeal to Persians without detriment to British.

Meanwhile, British think they should send Zahedi acknowledgement of his message Eden received through Swiss October 30.[6] They are, therefore, giving Swiss Minister London following message for transmission:

Verbatim Text.

"Thank you for the message I received through the Swiss Government on October 30, about the resumption of diplomatic relations. I am very glad to know that you share my wish that this should be done as soon as possible. Obviously our countries should be in normal and direct touch. The problem of oil is complex and will require study and time to resolve, and I feel that for us to be in direct touch will help us both. I do not think that any useful

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[1] Sent to Tehran as telegram 61 and repeated to the Department.

[2] Not printed. (888.2553/11-1153)

[3] See footnote 2, Document 384.

[4] On Nov. 13 the Embassy reported in telegram 2084 that the British had expressed great appreciation for Henderson's skillful handling of his conversations with the Shah, Zahedi, and Entezam and added that Henderson had taken exactly the proper line. Moreover, the British were giving high-level consideration to Henderson's proposal contained in telegram 1088, Document 384. (Telegram 2084; 888.2553/11-1353)

[5] Document 381.

[6] Not printed. (888.2553/10-3153)

contacts can be made except by way of properly accredited representatives.

I realize, however, that the resumption of diplomatic relations presents difficulties at this time to your government, and I am considering, in the light of your Foreign Minister's comments as reported by Ambassador Henderson, whether there is anything further I can do to assist you in this respect."[7]

ALDRICH

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[7] Ambassador Henderson reported on Nov. 16 that the previous day he informed the Foreign Minister that the British Government did not think it would be useful to solve outstanding differences between the two governments except by way of properly accredited representatives. The British were, however, studying the comments made by the Foreign Minister to Henderson to ascertain if there was anything they could do to make it politically easier for the Iranian Government to resume relations at once, and the Swiss Minister would probably deliver the British views during the next day or two. The Foreign Minister expressed his disappointment and said he would immediately inform the Prime Minister and the Shah. (Telegram 1116; 888.2553/11-1653)

No. 387

INR-NIE files[1]

National Intelligence Estimate[2]

SECRET WASHINGTON, November 16, 1953.
NIE-102

PROBABLE DEVELOPMENTS IN IRAN THROUGH 1954[3]

THE PROBLEM

To estimate probable developments in Iran through 1954.

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[1] Files of National Intelligence Estimates, Special Estimates, and Special National Intelligence Estimates, retained by the Directorate for Regional Research, Bureau of Intelligence and Research.

[2] National Intelligence Estimates (NIEs) were high-level interdepartmental reports presenting authoritative appraisals of vital foreign policy problems. NIEs were drafted by officers from those agencies represented on the Intelligence Advisory Committee (IAC), discussed and revised by interdepartmental working groups coordinated by the Office of National Estimates of the Central Intelligence Agency (CIA), approved by the IAC, and circulated under the aegis of the CIA to the President, appropriate officers of cabinet level, and the National Security Council. The Department of State provided all political and some economic sections of NIEs.

[3] According to a note on the cover sheet, "The Intelligence Advisory Committee concurred in this estimate on 10 November 1953. The FBI abstained, the subject being outside of its jurisdiction. The following member organizations of the Intelligence Advisory Committee participated with the Central Intelligence Agency in the preparation of this estimate: The intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and the Joint Staff."

CONCLUSIONS

1. Relatively moderate governments are likely to continue in Iran through 1954, although hampered by: (a) the indecision of the Shah; (b) the irresponsibility of the diverse elements making up the Iranian political community; and (c) the unruliness of the Majlis. The chances that Zahedi himself will remain prime minister through 1954 are not good.

2. Few significant steps toward the solution of Iran's basic social, economic, and political problems are likely to be taken during the period of this estimate. The effectiveness of the government will largely be determined by its success in dealing with Iran's immediate fiscal and monetary problems and in making some apparent progress towards settlement of the oil dispute. An early and satisfactory oil settlement is unlikely. Without further outside financial aid, an Iranian Government probably would manage to cope with its immediate fiscal and monetary problems by resorting to deficit financing and other "unorthodox" means. Under such circumstances, it would encounter—and with difficulty probably keep in check—mounting pressures from extremist groups.

3. The security forces, which are loyal to the Shah, are considered capable of taking prompt and successful action to suppress internal disorders and recurrent rioting if provided timely political leadership. This capability will continue if, during the period of this estimate: (a) security forces receive adequate financial support; (b) differences between the Shah and top level leaders over control of the security forces are not seriously aggravated; and (c) strong public opposition to the regime does not develop.

4. Tudeh's capabilities do not constitute a serious present threat to the Iranian Government, and the Tudeh Party will probably be unable to gain control of the country during 1954, even if it combines with other extremist groups. It will retain a capability for acts of sabotage and terrorism.

5. Iran will attempt to maintain friendly relations with the USSR, but will almost certainly resist any Soviet efforts to increase its influence in Iran's internal affairs.

6. Failure to receive continued financial aid from the US or an acceptable oil settlement will probably result in a government coming to power which will be less friendly to the US than the present one.

[Here follow paragraphs 7-33, providing further discussion and elaboration of the above conclusions.]

No. 388

641.88/11-1953: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET TEHRAN, November 19, 1953—noon.

1140. Noforn. Department for Secretary, and Byroade.

1. I am fully in sympathy with need for early resumption Iranian-British diplomatic relations, and on basis Department's expressed attitude have been pressing this matter upon Shah, Prime Minister, Foreign Minister and other leading Iranian officials. However, I can foresee certain serious difficulties which could affect adversely all we have been attempting to do in recent months, if firm. Note commitments are not made by United States and United Kingdom Governments to each other before formal relations resumed between United Kingdom and Iran. Nature such commitments I will elaborate below.

2. There is perennial Iranian fear that resumption diplomatic relations with United Kingdom will signify revival alleged United Kingdom interference in internal affairs to detriment Iranian interests on oil question. Many Iranians equally fear that they will be depriving themselves of strongest card in negotiating with United Kingdom, since they feel that United Kingdom actually more interested in reestablishing relations than in reaching oil solution. Such persons envisage that resumption of relations may be followed by variant of previous British policy, namely to wait until economic pressures could bring Iran to agree to type oil arrangement United Kingdom preferred, at same time endeavoring manipulate political arrangements most favorable that objective.

3. British attitude toward Zahedi government seems to us here somewhat unclear. We aware of assurances given this summer regarding fullest cooperation in event successor to Mosadeq should take office. However, we have remarked since that time certain attitude of reserve and wait and see taken by ranking British officials, United Kingdom stiffening in general field of oil proposals, and continued strong criticism Zahedi regime by Iranians long known as strongly pro-British. Our estimate of Iranian situation and prospects for 1954 being submitted in Embassy telegram 1141, November 19.[2] Therein we consider Zahedi regime, with its fundamental goodwill toward West, appears have best chance of any potential government to meet grave issues at this time facing Iran, including oil. If Zahedi government against its political judgment

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[1] Transmitted in two sections; repeated to London for the Ambassador.

[2] *Infra.*

bows to British insistence for resumption relations without anything to show that progress has been made in oil dispute, it will only be as result efforts this Embassy on basis United States Government's views on this question. Zahedi government hence will consider United States has strong moral responsibility to see that thereafter United Kingdom take no internal steps to undermine this government in its negotiations regarding oil, or in its very existence.

4. In light attitudes many Iranians and situation as it appears to Embassy, I believe it extremely important UK have full grasp of implications US role in Iran in behalf entire free world, including UK, and of extent to which US risking its prestige and influence while in that role. It seems to us that UK on its side should be in position to give for definite period of time concrete assurances to US Government that it will not countenance and will disapprove any efforts here which could be interpreted as unilateral UK objective to undermine and replace Zahedi government. We are of opinion such a period could extend during course of oil negotiations and for at least limited time following successful signature and Majlis ratification of an oil agreement.

5. It vital to common objectives US and UK in Iran that there be no possibility of misunderstanding on basic issues following resumption UK-Iranian relations. There no doubt Iranians, from whatever motivation, will do all possible to sow suspicion between US and UK following that event. Interest of both our countries could suffer disastrous reverses if such activities even partially effective. Shah himself if he considers for one moment there some divergence between US and UK approaches to Iranian problems during this crucial period will not hesitate join in game. Shah's support is keystone any actions on part Zahedi government to cope with serious problems such as Majlis elections and oil negotiations and eventual Majlis ratification of oil agreement. Hence, common Anglo-American attitudes toward Shah without slightest deviation and full mutual confidence, justified by behavior not only between two governments but also between their representatives in Iran, are essential to maintenance of Shah's support for and to prospect success of Zahedi regime.[3]

HENDERSON

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[3] On Nov. 21 the Department responded that it greatly appreciated Henderson sending this cable, as it would help the Department to prepare for the impending Bermuda Conference of the Heads of Government of the United States, the United Kingdom, and France. (Telegram 1225; 641.88/11-1953)

The Embassy in London replied on Nov. 25 that it agreed entirely with Henderson's views as expressed in telegram 1140. (Telegram 2257; 641.88/11-2553)

No. 389

788.00/11-1953: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET TEHRAN, November 19, 1953—1 p. m.

1141. Embassy has sought below to give its general appraisal of Iranian situation at present and to project this estimate into 1954. . . .

1. Zahedi Government, as legally designated regime of Shah, apparently will be able to stay for some time, despite opposition criticism, if Shah does not permit it to be undermined and if he at same time allows government to proceed with effective measures designed to quell that opposition. Nationalist political forces remain disrupted and no popularly recognized Nationalist political leader other than Mosadeq seems available, and he in jail. Armed Services have for many years been decisive political instrument in country although this fact obscured under Mosadeq regime because of Shah's unwillingness employ them contrary to Mosadeq's wishes. Constitutional issue which divided Mosadeq and Shah resolved in favor latter, because former was not able maintain control over armed forces.

2. Zahedi attempting abide by constitution without full powers Dr. Mosadeq possessed although confronted with serious conditions as aftermath Mosadeq rule. In view of his constitutional and legal shackles from which he apparently not willing free himself by extra legal actions, his regime not likely to effect significant social and economic reforms in country during 1954. Government continues campaign against Tudeh, does not hesitate impose quasi press censorship and insists criticism have some limits. Criticism any regime endemic in Iran and present government getting its share which will be related to its future effectiveness.

3. Prime internal political problem clearly continued good relations between Shah and Prime Minister. Shah may be expected, in traditional Persian manner, not to place complete trust in Zahedi or to back him unqualifiedly. Current Mosadeq trial having some adverse public effect upon government and being handled under authority Shah.[2] On other hand, Shah and Zahedi agree that because disruptions parliamentary development under Mosadeq next

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[1] Transmitted in two sections; repeated to London as telegram 352 and pouched to Meshed, Tabriz, and Isfahan.

[2] Mosadeq's trial on charges that he defied the Constitution as it touched the Shah's prerogatives began on Nov. 8. Documentation regarding this trial is in files 788.00 and 788.13.

Majlis elections should be fully controlled and slate candidates mutually agreed upon. Both affirm new deputies should come from areas where elected and both assert they will be able by mutual compromise to arrive at acceptable single list.

4. In next year it not believed political activity of various Iranian social groups will change materially. Activities peasants and tribes, aside from possible intrigues of Qashqais, may not be considered as of decisive significance. Worker agitation for better wages and problem unemployment may have to be met partially by government. Activities of merchant class, particularly those benefiting from Mosadeq's previous inflationary policies, will have to be channeled in direction of recognition benefits to be derived from improved economic conditions flowing from an oil agreement. Familiar problem will remain of educated Iranians frustrated in securing suitable jobs because of Iranian economic and political conditions. It believed best government can do during coming year is to keep popular frustrations from mounting, maintain anti-Tudeh campaign, and permit improved conditions stemming from an oil settlement and resumption substantial Iranian oil exports to have their effect.

5. Without an oil agreement of some kind or, failing this, continued American financial aid, it seems impractical to think any non-Communist regime, no matter how authoritarian, can survive. Public sentiment may be mobilized in behalf oil agreement or at least neutralized if it considers such arrangement protects Iranian rights. Although this broad concept, it will be necessary for Zahedi regime to publicize fully it has safeguarded Iran's interests in making settlement. Tudeh Party has been seriously scotched by strong government actions taken but its essential leadership and organization intact. In event no oil settlement or foreign financial aid, Tudeh Party in alliance with malcontent nationalists could become in 1954 once again serious threat to continued independence of Iran.

6. Any regime fully determined to impose an oil settlement without regard public reaction undoubtedly with army support could secure temporary Iranian acquiescence but consent could be expected to be brief. However it believed that Zahedi regime, despite its faults for which certain remedial action can be taken, offers best available means to achieve an oil settlement which under present volatile Iranian conditions could have likeliest prospect of durability.

As well, it believed that Shah recognizes Zahedi in better position to reach oil agreement than any potential Prime Minister now that Mosadeq can no longer be considered. However, Shah might at some stage wish replace Zahedi by another also opposed to extreme nationalists. Abrupt dismissal of Zahedi would be likely strengthen forces opposed to an oil settlement as could undermine any oil arrangement already made. Questions whether Zahedi is to remain in power and whether Shah permits him sufficient leeway for constructive action may be answered in part by ability United States and United Kingdom fully to cooperate in Iran.

HENDERSON

No. 390

[illegible]

The Ambassador in the United Kingdom (Aldrich) to the Department of State[1]

SECRET LONDON, November 19, 1953—5 p. m.

2158. Re Embtel 2099, repeated Tehran as 61 and your telegram 1116, repeated London 347.[2]

British have now drafted terms of possible joint Anglo-Persian communique which, if Persians agreed, might be put out simultaneously in London and Tehran. Draft follows:

Verbatim text.

"HMG and the Persian Government have now decided to resume diplomatic relations and to exchange Ambassadors without delay. They will thereafter proceed at the earliest mutually agreed moment to negotiate a settlement of the oil dispute which has recently clouded relations between them and thus to complete the restoration of their traditional friendship. They are confident that, with goodwill, solution can be reached which will take account of the national aspirations of the Persian people regarding the natural resources of their country and which, on the basis of justice and equity, will safeguard the honour and interests of both parties.

"Thus it is hoped that a real contribution will have been made to the welfare of the two peoples and to the cause of peace and international cooperation".

End verbatim text.

British would be grateful for your comments on:

(a) Phraseology this draft. They have made clear to us that in its essentials it represents furthest to which they would be prepared go in producing formula, though they realize there may be other phrases, equally innocuous from their point view, which might be more acceptable to Persian opinion.

(b) Timing of presentation of draft to Persians. British feel that the longer they delay in implementing their promise to Zahedi of further consideration (see Eden's message to Zahedi reproduced in Embtel 2099) the more the Persians may be led to expect in way of concessions. On other hand, Mosadeq trial may not make this very appropriate moment for Persian Government to think about restoring diplomatic relations.

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[1] Sent to Tehran as telegram 62 and repeated to the Department.

[2] See Document 386 and footnote 7 thereto.

There is no suggestion you should sound Persian opinion on either point at this stage. British merely request your comments.

Foregoing approved by Eden.[3]

ALDRICH

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[3] On Nov. 20 Ambassador Henderson responded that he considered the tenor of this statement to be excellent and suggested that this draft be shown informally to the Iranian Foreign Minister as soon as possible to obtain his reactions. He cautioned, however, that the British should not become unduly optimistic that the Iranians were willing at that particular time to resume relations with the United Kingdom in the absence of an oil agreement. He also recommended that friendly pressure should continue to be exerted upon Iran to reestablish relations with the British. (Telegram 1148, 641.88/11-2053) The Department agreed on Nov. 21 that the friendly pressure on the Iranians should not be relaxed. (Telegram 1225, 641.88/11-1953)

No. 391

641.88/11-2453: Telegram

The Ambassador in the United Kingdom (Aldrich) to the Department of State[1]

SECRET LONDON, November 24, 1953—1 p.m.

2228. British most grateful for your helpful comments (urtel 1148).[2]

They are arranging for following message from Eden to be sent to Swiss Minister Tehran for presentation to Entezam.

Verbatim text.

"You will recall that, in the last message I sent to General Zahedi, I said that I was considering whether there was anything further I could do to assist difficulty over a resumption of diplomatic relations. I have given much thought to this, and believe that the best way to proceed would be for us to agree upon the text of a joint communiqué which could be put out simultaneously in Tehran and London. The terms of the communiqué might be as follows:

> 'HMG and the Persian Government have now decided to resume diplomatic relations and to exchange Ambassadors without delay. They will thereafter proceed at the earliest mu-

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[1] Sent to Tehran as telegram 65 and repeated to the Department.

[2] See footnote 3, *supra*.

> tually agreed moment to negotiate a settlement of the oil dispute which has recently clouded relations between them, and thus to complete the restoration of their traditional friendship. They are confident that, with good will, a solution can be reached which will take account of the national aspirations of the Persian people regarding the natural resources of their country and which, on the basis of justice and equity, will safeguard the honour and interest of both parties.
>
> Thus it is hoped that a real contribution will have been made to the welfare of the two peoples and to the cause of peace and international cooperation.'

I very much hope that you will be able to concur in the wording that is suggested above. In that event, all that will remain for us to do is to concert, through the Swiss Government the time at which we should make our simultaneous announcements. I shall be quite ready to leave the choice of time to you, but would suggest that it should be as soon as possible. I feel strongly, as you know, that the present estrangement between our countries should be ended without delay." *End verbatim text.*

British have chosen formal channel of Swiss Minister since its use may incline Persians give more definite reply than less formal approach. Nevertheless, they are anxious that, in concert with your Swiss colleague, you should at same time speak informally to Entezam on lines you have hitherto taken. Eden asks us to add that your efforts are very highly valued.[3]

ALDRICH

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[3] On Nov. 28 Ambassador Henderson reported that Eden's message reached the Swiss Minister only the previous evening, that the Minister delivered it that morning, and that Foreign Minister Entezam seemed to be somewhat disappointed and reserved when given the message. (Telegram 1195, 888.2553/11–2853)

No. 392

888.2553/11–3053: Telegram

The Ambassador in the United Kingdom (Aldrich) to the Department of State[1]

SECRET PRIORITY LONDON, November 30, 1953—5 p. m.

2340. Limit distribution. Hoover and I lunched with Eden and advisers this noon. Hoover made detailed and reasoned statement urging British agreement to consortium. He emphasized both Persian situation and problem presented by independents who at any time might undertake direct negotiations with Iranians. In absence

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[1] Repeated to Tehran.

United States agreement with British on future course of action, independents would be free to pursue such negotiations to prejudice of British-Iranian settlement. Eden immediately took much more flexible position than officials have maintained in meetings and in fact over-ruled their reiteration that first approach to Iran should be to ask for return of AIOC as sole operator and distributor.

Substance of Eden's comments was that British have obligation both to AIOC and Parliament to obtain best settlement possible. First step is to re-establish relations. After receipt estimate of situation from their representative Tehran they will concert with us on next step. Although his advisers insisted that try should be made to arrange for return of AIOC alone, Eden himself said he believed this impractical but could not make commitment re consortium until first-hand reports of British representative Tehran received and matter considered by Cabinet. Later in discussion, however, he suggested possibility that matter might be put up to Cabinet even before relations re-established. He seemed receptive to Hoover's suggestion that AIOC (Fraser) might take initiative in near future with American and perhaps French companies active in ME which would have to cut back to make way for Iranian oil, and invite them to discuss formation consortium, consortium would then negotiate with Persians, perhaps through International Bank as agent or intermediary. During discussion it emerged that principal British concern is that any preliminary conversations on consortium would almost inevitably become known to Iranians and thus destroy British "bargaining position".

At conclusion of discussion it was agreed that:

(1) First priority effort by all concerned (including, Eden hoped, Vice President Nixon)[2] would be to push for re-establishment relations;
(2) Hoover would probably not proceed Tehran at this time;
(3) British course of action after re-establishment relations would be concerted with us (a commitment British have previously avoided) and would probably take preliminary steps towards formation of consortium.

Third point was left rather vague and it was agreed that British officials would meet this afternoon, meet again with Hoover tomorrow morning[3] and luncheon group would meet tomorrow afternoon

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[2] Vice President Nixon was scheduled to arrive soon in Iran as part of his trip to the Far and Middle East, Oct. 7-Dec. 14.

[3] On Dec. 1 the Embassy in London informed the Department that Hoover, instead of having a morning meeting on Dec. 1 with British officials, had a long discussion with Sir William Fraser, of the Anglo-Iranian Oil Company. During that conversation Hoover convinced Fraser that a consortium was the only practical solution to

Continued

in effort obtain a general agreement prior to conversations at Bermuda. Hoover endeavoring to get British agree in principle to a consortium as preliminary to possible conversation between President and Prime Minister at Bermuda along lines Hoover discussed with President on November 21.[4] So far no attempt made to agree on relative British and American participation but only to get general agreement to principle. President would then be free to propose equal participation by both sides if opportunity presented itself.

Luncheon meeting today represented considerable step forward in British thinking and we are optimistic that further progress can be made before Eden departs for Bermuda.[5]

ALDRICH

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the oil problem and Fraser agreed to put the matter to the AIOC board of directors that evening along the following lines:

"When relations are re-established AIOC will either directly or through British Embassy ask Persians whether they will accept AIOC. When they refuse, active steps to form consortium will be taken. In meantime, AIOC would without publicity, undertake 'exploratory' conversations with representatives of American interests. Fraser suggested American and British interests would participate on 50-50 basis. He admitted, however, that French would probably have to be included, but hoped to postpone bringing them in until final stages when all-important terms of consortium would have been settled."

The Embassy further reported that at the meeting with Eden that afternoon, the Hoover-Fraser discussions were approved and Eden expressed great pleasure and appreciation of Hoover's efforts. (Telegram 2375; 888.2553/12-153)

[4] According to a memorandum dated Nov. 21 from Hoover to President Eisenhower, which the President saw that day, Hoover recommended that the President tell Prime Minister Churchill at Bermuda that the stage was set to achieve an equitable oil settlement, that the United States and United Kingdom had to cooperate to achieve such a success, and that the vehicle for success had to be a consortium of American and British oil companies. (GTI files, lot 57 D 155, "General")

[5] Hoover informed Henderson on Nov. 30 that, in view of the more reasonable British attitude, he was not going to go to Tehran at that time. (Telegram 73 from London; 888.2553/11-3053)

No. 393

888.2553/12-353: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET NIACT TEHRAN, December 3, 1953—10 a. m.

1227. Re Embtel December 2 to London 379, repeated to Department 1223.[2]

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[1] Sent to London as telegram 381 and repeated to the Department.

[2] In telegram 379 Ambassador Henderson reported that he had spoken with the Foreign Minister, who informed him that on the evening of Nov. 30, Prime Minister

Continued

1. At Foreign Minister's request I saw him 8:30 this morning. He told me that at 9:00 he would ask Swiss Minister transmit oral message to Eden that Government Iran had decided resume relations and that it was agreeable to issuance without alteration joint communiqué suggested by Eden. Swiss Minister would also be requested to inquire whether British Government would be agreeable to issuance at 2 p. m. Tehran time December 5.

2. Foreign Minister said now that it quite widely known Iranian Government preparing to resume relations, the sooner they could be resumed the better so end would be put to wild rumors which certain to circulate. He hoped by December 4 receive confirmation that hour mentioned would be acceptable to British Government.[3]

3. Foreign Minister added Iranian Government somewhat concerned lest contents communiqué would not be up to expectations Iranian public. Government convinced it was moving against public opinion in resuming relations without being able to show some advance in direction solution of oil problem. Nevertheless, government could understand logic British point of view that resumption should come before oil discussions and had decided prompt resumption would be in interest country. It was making this move in genuinely friendly spirit and was hoping to be able promote atmosphere mutual confidence and cordiality. Iranian Government by resuming relations under these conditions was burning its bridges. In order obtain support, Prime Minister and he had been assuring other members Cabinet as well as Iranian leaders outside government that they had reason believe British would approach oil problem in conciliatory and understanding spirit. They hoped British would realize that Iranian Government was taking seriously British expressions of good will toward Iran and depending upon British during course oil negotiations to assume attitude which would really accord with Iranian national aspirations. He would appreciate it if I could let British Government know what situation was and emphasize friendliness of present Iranian Government.

4. Foreign Minister said that in view state public opinion Prime Minister would be compelled make short radio address following issuance communiqué. This address would be friendly but in it would

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Zahedi had held a Cabinet meeting to explain why it was necessary for Iran to reestablish relations as quickly as possible with the United Kingdom. The Cabinet response was so positive that neither Zahedi nor Entezam suggested nor were they confronted with any demands to make any changes in the text of Eden's suggested joint communique (see Document 391). (641.88/12-253)

[3] The Embassy in London informed the Department on Dec. 3 that the British Foreign Office had given the Swiss Minister a message to deliver to the Iranian Government that said that the British agreed that the joint communique should be announced at 2 p. m. Tehran time on Saturday, Dec. 5. (Telegram 2416; 888.2553/12-353)

be statement to effect that oil problem must, of course, be settled strictly within framework existing Iranian legislation. I told him it extremely important Prime Minister make no statement to which British Government might feel it must take exception. Foreign Minister said he would do his best edit speech with that end in view. He hoped British Government would understand that speech this kind must be made in order to cushion reaction of public which, as he had already indicated, would be almost sure to be somewhat disappointed in text communiqué.

5. In response my question, Foreign Minister said that shortly after, or simultaneously with issuance communiqué, government spokesman would state that announcement would be made in near future re exchange of Ambassadors.[4]

HENDERSON

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[4] On Dec. 5 the Embassy in Tehran informed the Department that the joint communique announcing the resumption of relations between the United Kingdom and Iran had been issued at 2:30 p. m. Tehran time, Dec. 5, and that the wording was identical to that in Document 391. (Telegram 1259; 641.88/12-553)

No. 394

888.2553/12-553: Telegram

The Ambassador in the United Kingdom (Aldrich) to the Department of State[1]

SECRET NIACT LONDON, December 5, 1953—1 p. m.

2444. Limited distribution. Smith from Hoover.

1. Please pass Byroade Bermuda, in partial response his inquiry this date, London Embtel 2437, December 4,[2] which also partially answers Deptel 2954.[3]

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[1] Repeated to Tehran eyes only for Ambassador. Passed by the Department to the Secretary of State in Bermuda as Tosec 24, Dec. 5. (888.2553/12-553)

[2] In telegram 2437 Hoover informed the Department that the Foreign Office and the AIOC still wished to assess the prospects themselves to see if the AIOC could return to Iran and, if so, under what conditions. The British claimed this was necessary to satisfy their own public opinion, elements of the British Cabinet, and the directors and stockholders of the AIOC. Hoover also reported that it was his conviction that the Foreign Office and the AIOC could not return in a dominant role, but they were hopeful that the situation was not as bad as Hoover had portrayed it. He also believed that the Foreign Office and the AIOC were now committed to proceeding with the consortium, especially since the AIOC would be able to return only with restricted participation. (601.4188/12-453) The Department passed this telegram to the Secretary of State in Bermuda as Tosec 16, Dec. 5. (601.4188/12-453)

[3] On Dec. 4 the Department informed Hoover that it understood that Jersey Standard and possibly other American oil companies had received invitations from

Continued

2. British now tacitly agree some form consortium only practical solution but insist they must go through motions of assessing situation Tehran for themselves and determining extent AIOC participation. HMG estimate probably will not complete this phase until early January.

3. To expedite progress, HMG and AIOC agree much time saved now by preliminary and hypothetical discussions between AIOC and six other large Middle East offtakers. Fraser has issued invitations accordingly to five American and one British company come London and explore possibilities.[4] Draft this invitation seen by me and Jennings will submit copy to Phleger and Department soonest possible. Fraser apparently finds necessary mention me several times as urging this course in absence of his direct assessment in Tehran. I see no harm if will expedite situation. He seemed impressed by my argument he alone possessed initiative now and it was opportunity for great leadership and statesmanship on his part.[5]

ALDRICH

Sir William Fraser of AIOC to send representatives to London to discuss the Iranian oil problem; that Socony representatives were going to call at the Department on Dec. 7 to discuss Fraser's invitation; and that the Department wished Hoover to inform it of what he knew concerning Fraser's invitation. (Telegram 2954; 888.2553/12-453)

According to a letter dated Dec. 4 from Austin T. Foster, General Counsel, Socony-Vacuum Oil Company, to Phleger, Foster had informed Phleger of Fraser's invitation, dated Dec. 3, and had set up the meeting to be held on Dec. 7 at the Department. (888.2553/1-453)

[4] Not printed. (888.2553/12-453)

[5] The Department further informed Hoover on Dec. 5 that S. A. Swensrud of Gulf Oil Company had informed the Department that he and representatives of four other major American oil companies, along with Royal Dutch Shell, had received invitations from Fraser; that Swensrud believed talks could begin in London about Dec. 14; and that Swensrud hoped Hoover would be available in London during the talks. (Telegram 2986; 888.2553/12-453)

On Dec. 7 Hoover replied that he planned to remain in London during the proposed conference. (Telegram 2457; 888.2553/12-753)

No. 395

888.2553/12-853

Memorandum by the Legal Adviser (Phleger)

TOP SECRET WASHINGTON, December 8, 1953.

IRANIAN OIL

At the Cabinet Meeting Mr. Dulles reported on the Iranian Oil situation, telling of the invitation that had been extended by Sir

William Fraser to several American oil companies to come to London for explanatory talks looking toward a possible cooperative effort to solve the Iranian problem. He said that he was answering a letter of inquiry from Standard Oil of New Jersey[1] by stating that the Department of State had no objection to the oil companies' attending the meeting and that he had been advised that the matter had been cleared by the Department of Justice, asking the Attorney General to confirm this. The Attorney General confirmed this, stating that he thought a representative of the U.S. should attend the meetings. The Secretary replied that it was his understanding that Mr. Hoover would attend the meetings.

The letter to Standard Oil of New Jersey stating that the Department had no objection to the oil companies' accepting the invitation included the following "on the understanding that Mr. Hoover, consultant to the Secretary, will be present at the discussions."

HERMAN PHLEGER

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[1] See footnote 3, *supra*. The Secretary's letter was sent to Harden over the signature of Under Secretary Smith. (888.2553/12-853)

No. 396

788.5/12-1753: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET TEHRAN, December 17, 1953—5 p. m.

1341. 1. Vice President Nixon told me before his departure[2] that during his talk with Shah on afternoon December 11 latter broached subject future Iranian Army. Shah took position similar to that which he had assumed during previous conversations with General McClure and myself. He told Vice President it necessary early decision be made whether Iranian Army was to be organized, equipped and trained to defend Iran in case of external attack from any direction, or army was to be used merely for maintaining internal security. Shah explained why in his opinion army should be capable of engaging in at least holding action in case Iran should be invaded by foreign armed forces. He pointed out that if it should become known that army was to be used merely for police purposes morale not only of army but of Iranian nation as whole would suffer to such extent it would be difficult for Iran to resist Soviet political as well as military pressure.

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[1] Transmitted in two sections.

[2] Vice President Richard M. Nixon was in Iran Dec. 9–Dec. 12, as part of his good will tour of the Far East and South Asia, which began on Oct. 7, and ended upon his return to Washington on Dec. 14. Extensive material regarding the Vice President's trip is in file 033.1100-NI.

2. Vice President inquired if Shah had in mind, in case Iranian Army should be prepared to defend itself, that there should be defense cooperation between Iran and its neighbors. Shah replied it only natural Iran should cooperate in defense matters with its neighbors if Iran would have army capable of defensive action. It would make no sense, however, for Iran without army with defense capabilities even to discuss military cooperation with its neighbors. Iran would be in intolerably humiliating position if it should attempt participate in regional defense talks or arrangements at time when it had no armed forces to contribute even to its own defense in case of attack. In his opinion it would not be prudent to talk prematurely re defense pacts or arrangements between Iraq and its neighbors.

3. Shortly after Nixon's departure Prime Minister and Foreign Minister told me they had understood that matter future Iranian Army had been discussed between Shah and Vice President and they would be grateful if at appropriate time I would let them know in confidence my understanding as to what had been said. Last evening during my talk with Prime Minister he asked if I could summarize for him my understanding in this regard. After I had done so I asked Prime Minister if he was in agreement with Shah's attitude as described by me and he replied in affirmative.

4. During conversation which I had this morning with Foreign Minister latter also asked me to tell him what I knew about this conversation. When I had done so he expressed relief. He said he had been worried lest Shah had unintentionally misled Vice President into believing Iran prepared at present time go further than it really could. It would be foolhardy for Iran, just now when it had no army capable of defending itself and when government not yet firmly entrenched, to humiliate itself and uselessly provoke Soviet Union by entering into conversations with Pakistan or Turkey or both looking forward towards military cooperation. Least said at present time about ME defense pact which would include Iran, better. In a way it unfortunate that Zafrulla Khan coming Iran just now because his visit would be certain give rise to rumors that common defense conversations between Iran and Pakistan already taking place. Rumors this kind would serve merely to promote agitation among fanatical nationalist fringe and neutralists in Iran against US, Turkey, and Pakistan with consequent embarrassment to Iranian Government. He said he also hoped that if US Government should decide to help Iran transform its army into force capable of defensive action, there would be minimum talk about decision in US and, if possible, no talk at all about military pacts, de-

fensive alliances, etc. It would be preferable for developments in direction ME defense arrangements to follow natural course and not appear to be responsive to outside guidance. Reports emanating from what might appear to be official American sources re military bases in Iran would have particularly unfortunate repercussions and would handicap Iranian Government in its efforts unostentatiously to strengthen Iranian defenses.

5. I told Foreign Minister I confident US Government understood Iran's difficulties in this respect and had no intention of doing or saying anything which would add to them. Foreign Minister said both Turkish and Pakistan Governments thus far had been circumspect in such official statements as they had issued and he hoped they also would not do or say anything which might increase present press speculation re possibilities future military arrangements with Iran.

6. Foreign Minister said that Indian Ambassador seemed particularly worried re possibility military collaboration under aegis US among Pakistan, Iran and Turkey, and on several occasions had indicated that his government would consider such collaboration as threat to peace of ME. Soviet Ambassador also had dropped hints of similar character. Iran had no intention allowing Soviet or Indian pressure to dictate its foreign or defense policies. Nevertheless now was not time to engage even in secret conversations about future defense pacts or arrangements.

HENDERSON

No. 397

888.2553/12-1853: Telegram

The Chargé in the United Kingdom (Butterworth) to the Department of State[1]

SECRET LONDON, December 18, 1953—4 p. m.

2678. Limit distribution.

1. Representatives eight oil companies, namely AIOC, Shell, Cie Francaise de Petroles, Standard Oil France, Standard Oil California, Texas, Gulf, and Socony, have held meetings at invitation AIOC in latter's offices London December 14, 15 and 17.[2] Hoover attended as observer at request Justice Department. Discussions solely of exploratory and hypothetical nature in anticipation com-

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[1] Repeated to Tehran.

[2] Memoranda of these meetings are in GTI files, lot 57 D 155, "Top Secret Mr. Hoover—Correspondence".

panies may be called upon assist future re-establishment Iranian oil industry.

2. Fraser opened meeting with statement that discussions must be of hypothetical nature not only because limitations placed on American companies by Justice Department but also AIOC must await assessment of Iran situation by HMG to determine extent their own participation. He indicated strongly AIOC interested 50 percent participation in future venture, but in no event could they discuss matter until such report available, perhaps early January. American companies made no comment and extent of individual participation not mentioned further.[3]

3. Fraser outlined desire AIOC receive compensation by (a) receiving free oil directly from Iran in addition to (b) cash and percentage of profits from any future partners in contribution for latter's participation in venture.

4. Considerable portion of meetings given over to factual description by AIOC staff of working conditions, field operating and refinery facilities, together with probable estimates of costs and expenses of rehabilitating installations. AIOC estimated possible crude production of ten million tons (200,000 BPD) during first year, 20 million tons (400,000 BPD) during second year and 30 million tons (600,000 BPD) during third year. Further estimated following amounts of above crude could be refined: Five million tons (100,000 BPD) first year, ten million tons (200,000 BPD) second year and twenty million tons (400,000 BPD) third year. Above AIOC figures apparently predicated partly upon physical limitations of facilities and partly by their own ability to market 50 percent of off-take and adjust production from other sources accordingly. American companies offered no comment in view hypothetical nature of AIOC position and latter's unwillingness discuss, even tentatively, relative participation by others.

5. Group felt that nature of agreement to be negotiated with Iran constituted matter of utmost importance. Effective operating management of producing and refining facilities by industry off-taking group believed absolute necessity in view (a) extremely large investment by industry necessary rehabilitate and make possible financial advances Iranian Government pending full scale operation, and (b) dependence of marketing organizations upon steady, reliable and efficient operation, with high degree quality control refined products, if commitment for large volume off-take anticipat-

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[3] Hoover cabled the Department on Dec. 18 that the British were determined to pursue this course of action, but he was confident if the British appraised the Iranian situation fairly, they would discover that the AIOC would only be able to return to Iran in a minor capacity. (Telegram 2679; 888.2553/12-1853)

ed. Furthermore, unless development of series of situations similar Iran to be avoided in other countries Middle East, South Africa and East Indies, additional details of agreement must not be better than most liberal instances elsewhere.

6. Proposal for participation by IBRD considered and, while no firm conclusion reached, general consensus was that workable solution probably attainable if political situation in Iran demanded such form of approach.

7. American participants in meeting voiced readiness to consider any constructive solution if requested to do so by US Government, though not anxious participate from commercial standpoint in view adequate sources supply elsewhere. Plans made for working group reassemble early January when decisions by HMG and AIOC based upon own reports from Iran would permit more realistic approach.

8. Industry members felt, notwithstanding nebulous nature of AIOC position, that considerable progress was accomplished in assessing economic, political and technical aspects of problems in Iran and in general outlining procedures necessary reach a final solution.

BUTTERWORTH

No. 398

Editorial Note

On December 23, the National Security Council, at its 177th meeting, listened to a report by Vice President Nixon on his trip to the Far East, South Asia, and Iran. With regard to the situation in Iran, the Vice President made the following statements:

> "During our visit to Iran, I formed a high opinion of Zahedi. He is a strong man. He said an interesting thing: 'As you look toward Persia, don't treat us as beggars, but as respectable relatives who have come on hard days.' I think the Shah is beginning to have more guts. We talked about putting young people in positions of power. If the Shah would lead, things would be better. He said to me, 'When the oil thing is settled, I will lead.'
>
> "We have one of our finest Ambassadors in Iran—Loy Henderson. So far as the oil situation is concerned, the cartel suit must be dropped, or a way found to postpone the suit or get us out of the situation. Loy Henderson talked about prices and stabilization, and said that if the private companies won't stabilize prices then the government must. If not, the stable countries may go down the drain.
>
> "The other problem in Iran is the problem of the British. They should get on the team out there. The Iranians are being extremely tolerant and liberal, and the British are showing the same intransigeance as always. Henderson is privately very pessimistic about a

settlement in Iran unless somebody topside in Britain puts the screws on.

". . . if we don't get a settlement it will cost us a hundred to a hundred and fifty million per year as long as the oil thing is unsettled. We must either settle it or else. I think that if the oil situation can be settled, chances for real progress in Iran are remarkable. Now that Mossadegh is out of the way things should be a lot better." (Memorandum of discussion; Eisenhower Library, Eisenhower papers, Whitman file)

No. 399

788.5 MSP/12-2353

Memorandum by the Assistant Secretary of State for Near Eastern, South Asian, and African Affairs (Byroade) to the Secretary of State

SECRET WASHINGTON, December 23, 1953.

Subject: Future Aid to Iran.

Attached (Tab A) is a summary of the main points in a memorandum containing the tentative views of Ambassador Henderson on future aid to Iran. The memorandum was transmitted under cover of a letter from the Ambassador to Vice President Nixon.[1]

It might be helpful for you to read this before the NSC discussion of Iran this week.[2]

[Tab A]

SECRET

UNITED STATES AID TO IRAN

1. *Emergency Financial Aid.* The following contingencies will face us in March or April 1954 when US emergency aid to Iran is exhausted:

(a) *An oil settlement concluded within the next few months.* In such an eventuality, the Iranian Government will need extraordinary financial assistance to tide it over until large quantities of oil begin to flow. We should be prepared to extend to Iran $15 to $25 billion for this purpose.

(b) *No oil settlement, the fault lying in our judgment with the British.* If the Iranian Government shows what we consider to be a reasonable attitude but agreement is prevented by unduly harsh demands on the part of the British, we will have to decide whether to continue aid or face the consequences of the fall of the Zahedi Government. In such an eventuality we should support the non-communist elements in Iran, furnishing not less than $5 million monthly (a rough estimate) in order to permit the Iranian Government to meet essential expenditures.

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[1] Not found in Department of State files.

[2] Presumably a reference to the 177th meeting of the National Security Council on Dec. 23; see *supra*.

(c) *Settlement delayed for technical reasons due to no fault of the British or Iranians.* With the best of intentions on both sides, the factors involved are extremely complex and settlement may not be concluded until US emergency aid is exhausted. In such an eventuality our emergency aid program should be extended on a temporary basis, providing $5 to $6 million per month for several months.

(d) *No oil settlement, the fault lying in our judgment with the Iranians.* Should emotional public opinion in Iran force the Iranian Government to make demands which are unacceptable to the British and which we would consider unreasonable, it is unlikely that we would support Iranian intransigence by continuing emergency aid even though its cessation might result in the collapse of Iran and its fall under communist control.

2. *The Regular FOA Technical and Economic Assistance Program.* Point 4 is now widely appreciated, and its regular program should be continued at the current level in the next fiscal year—no less than $24 million, and FOA should transfer as many of its programs as possible to Iranian Government apparatus so that by June 1955 the Iranian Government will have assumed the responsibility for continuing much of what FOA is doing in Iran. This recommendation is based on the assumption that there will be an oil settlement before June 30, 1954.

3. *Military Assistance.* The US should decide on a policy of endeavoring to strengthen the Iranian army so that it might have capabilities of delaying for at least a limited period the advance of Soviet troops across the country. Leaving aside the needs of the Air Force, it is understood that the cost to the US of carrying out this policy would be considerably less than $10 million during the remainder of this fiscal year and less than $35 million during the next fiscal year. The adoption of this policy would strengthen the will of the Iranian army and of the Iranian people to resist communist pressure on Iran.

No. 400

601.4188/12-3053 Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET TEHRAN, December 30, 1953—10 a. m.
PRIORITY

1414. Noforn. In his limited contacts with Iranian officials and public British Chargé Denis Wright has thus far made excellent impression. In our opinion he has exercised good judgment by going about his tasks of opening Embassy and establishing contacts with Iranian authorities and diplomats in quiet unostentatious manner. Rountree and Melbourne this Embassy among those who met British Chargé and party when they arrived Tehran Airfield December 22. At airfield Wright made short friendly statement to press which was well received.

2. During lunch with Swiss Minister, Wright and Rountree at residence December 23, I had brief private talk with Wright who told me he seeing Foreign Minister next day. In confidence Wright told me he expected during first substantive interview with Foreign Minister to ask whether it would be possible for AIOC to come back to Iran. He thought he knew in advance what answer would be. Nevertheless necessary go through motions. Wright told me later his call on Foreign Minister on December 24, during which Swiss Minister present was merely of protocol character. It was agreed at that time that the Foreign Minister would summon him later to discuss substantive matters. On morning December 27 Foreign Minister told me he had received impression during his talk with Wright that latter would probably prefer not discuss oil until he had had opportunity obtain better feel of situation. Foreign Minister therefore did not intend ask Wright to call again until early January. I told Foreign Minister I sure he had misunderstood Wright who I thought extremely anxious begin exploratory talks. Foreign Minister after consulting engagement book said he would call Wright in for first talk morning December 29. I understood from Wright evening December 28 appointment had been made.

3. I invited officers British Embassy yesterday evening to Embassy residence to meet key members Embassy staff. We anxious to do

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[1] Also sent to London.

everything possible to cooperate and maintain relations at all levels of mutual confidence.

. . . .

HENDERSON

No. 401

Eisenhower Library, Eisenhower papers, Whitman file

Memorandum of Discussion at the 178th Meeting of the National Security Council, Washington, December 30, 1953[1]

TOP SECRET EYES ONLY

Present at the 178th Council meeting were the Secretary of State, presiding; the Acting Secretary of Defense; the Director, Foreign Operations Administration; the Director, Office of Defense Mobilization. The President and the Vice President did not attend because of their absence from the city. Also present were the Acting Secretary of the Treasury; the Attorney General (for Items 3 and 4); the Secretary of the Navy; the Director, Bureau of the Budget; the Under Secretary of the State; Assistant Attorney General Barnes (for Items 3 and 4); the Assistant Secretary of the Air Forces; Gen. Twining for the Chairman, Joint Chiefs of Staff; the Director of Central Intelligence; the Assistant to the President; Robert Cutler and C. D. Jackson, Special Assistants to the President; Robert Amory, Jr., Central Intelligence Agency (for Item 1); the NSC Representative on Internal Security (for Item 4); the Assistant White House Staff Secretary; the Executive Secretary, NSC; and the Deputy Executive Secretary, NSC.

There follows a summary of the discussion at the meeting and the main points taken.

[Here follows discussion of items 1 and 2, significant world developments affecting United States security and NSC 176.]

3. United States Policy Toward Iran (NSC 175 and Annex to NSC 175)[2]

Mr. Cutler sketched the background of the statement of policy contained in NSC 175, and noted several disagreements as to the

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[1] Drafted by Gleason on Dec. 31.

[2] NSC 175, "United States Policy Toward Iran", and the Annex to NSC 175, entitled "Certain Problems Relating to Iran", along with appropriate cover sheets and a background note dated Dec. 21, from James S. Lay, Jr., Executive Secretary of the National Security Council, were circulated to members of the NSC, the Secretary of the Treasury, the Attorney General, the Director of the Bureau of the Budget, the

Continued

correct courses of action. He further pointed out the comments of the Joint Chiefs of Staff, which in some instances dealt with the split views.

After certain minor revisions had been agreed upon, Mr. Cutler pointed to the first important difference of view, which involved paragraph 15-c and the issue of unilateral action by the United States to assist Iran in the event of a failure by the British to reach an agreement on the oil problem.[3]

Secretary Dulles pointed out that the major issue in paragraph 15-c was whether the United States should follow a line of action independent from the UK in the achievement of the oil settlement.

Secretary Smith added that the State Department was strongly opposed to this proposal by the Defense Department. It was, indeed, the only unacceptable feature in an otherwise excellent paper. In the first place, Secretary Smith insisted that it was impractical to attempt to secure an oil settlement without British cooperation. Secondly, the State Department was opposed to the choice of any arbitrary date, such as the first of July, 1954, to inaugurate independent action to reach an oil settlement. All in all, the State Department preferred its own version of paragraph 15-c.[4]

Mr. Tuttle, the Acting Secretary of the Treasury, informed the Council that he had discussed this very issue with Secretary Humphrey on the previous evening. The latter had made it very clear that he was opposed to waiting even as long as July 1, 1954, to take independent action in the event that the British and Iranians did not reach an amicable settlement. He preferred a much shorter in-

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Chairman of the Joint Chiefs of Staff, and the Director of Central Intelligence for their consideration on Dec. 21. (S/S-NSC files, lot 63 D 351, "NSC 175-Memoranda")

[3] Paragraph 15-c in NSC 175 reads as follows:

"c. If no such settlement has been arranged by July 1954, be prepared [insofar as practical]* to take independent action with Iran, in order to bring about a sufficient resumption of revenues from its oil resources to terminate the need for U.S. emergency economic assistance." (S/S-NSC files, lot 63 D 351, "NSC 175-Memoranda")

A footnote following the asterisk in the source text reads as follows: "The Defense and JCS Members propose deletion."

[4] According to a memorandum dated Dec. 29 from Jernegan to Secretary Dulles, the Department's substitution for paragraph 15-c reads as follows:

"If such a settlement has not been reached in an reasonable period of time, review U.S. policy toward the problem in the light of circumstances then existing."

In addition, the Department objected to the Department of Defense version of this paragraph because a) the Department believed it unwise to make such an advance commitment in the complicated and fluid Iranian situation; b) the contingency foreseen implied British failure to reach a reasonable agreement with the Iranians when the Iranian internal political situation could well be a factor in disrupting oil negotiations; and c) it was questionable if arrangements could be made for sales of Iranian oil "sufficient to terminate the need for U.S. emergency economic aid" in the absence of an amicable liquidation of the oil controversy. (S/S-NSC files, lot 63 D 351, "NSC 175-Memoranda") terval before taking independent U.S. action to get Iranian oil flowing again.

Secretary Dulles then suggested that it would be advisable to select an earlier date for reconsideration by the Council of a decision to take an independent line of action, but expressed himself as strongly opposed to a decision by the Council at this time to take independent action at any specified date. He went on to point to the Egyptian negotiations as indicating the great difficulty which would confront the United States if it chose to pursue a policy in Iran which might involve a break with the United Kingdom. We would be faced, said Secretary Dulles, with the same kind of difficulty if we tried this course of action in Iran. He pointed out that he was not insisting that we shouldn't "go it alone" in Iran, but the grave question of whether or not to play along with the British in the Middle East was much too serious a decision for the Council to take now, particularly in the absence of the President. Secretary Dulles again recommended that the Council take up the issue of independent action on April 1, and try to reach a decision at that time.

Governor Stassen observed that in recent months we had achieved some limited success in our efforts to stabilize the Iranian economy, despite the small amount of aid we had actually given them. Such success as we had obtained, thought Governor Stassen, was largely due to anticipation by the Iranians that an oil settlement would presently be achieved. If, however, the Iranians ever reached the point of being convinced that no such settlement is in the offing, deterioration of stability would set in very rapidly. Furthermore, said Governor Stassen, we in FOA are inclined to believe that if it should prove necessary to provide further financial assistance to Iran, this assistance should take the form of a loan rather than a grant. In any case, if a settlement of the oil controversy was delayed beyond April or May of next year, the United States would be risking the loss of all the stability which it has built up thus far by its assistance to Iran. These considerations, concluded Governor Stassen, should be set over against the irritation of the British if we were to pursue an independent course of action in Iran.

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Secretary Dulles replied that this thought perhaps was inherent in our policy papers, but he thought it would be desirable if the Attorney General would look into the whole matter. All our planning would be more realistic if the Attorney General found himself in the position of advising the President that a UN resolution, for example, was sufficient to permit the President to order military action in Korea, Indochina, etc., etc.

The Attorney General commented that by coincidence this very issue had come up in a discussion in the Department of Justice only yesterday. The Attorney General thought that the issue ought to be raised for discussion in the National Security Council.

After agreement had been reached that the Attorney General should study and report on this matter, Mr. Cutler reminded the Council that no discussion of U.S. policy toward Iran would be complete if it ignored the problem which was raised by the current anti-trust suit against the American oil companies in connection with Iranian oil. He therefore suggested, after summarizing prior Council action on this matter, that it would be desirable for the Council to discuss briefly the problem of the anti-trust suit, particularly in view of the remarks made by the Vice President on this subject at the last Council meeting.

Secretary Smith pointed out that while the State Department as yet had not received the details as to the discussions which Mr. Herbert Hoover, Jr., had had in London with the British Government and with the AIOC officials, it seemed already clear that there were two major problems involved in achieving a satisfactory oil settlement. The first of these was the problem of reasonable compensation to the Anglo-Iranian Oil Company. The second was that of a consortium replacing AIOC to market Iranian oil. The prospect of the consortium to market Iranian oil, continued Secretary Smith, inevitably brings the cartel suit to the foreground, because the American members of such a consortium would almost certainly include the big oil companies now charged with violations of the anti-trust laws.

The Attorney General stated that approval by the Council of NSC 175 amounted to adopting a policy in the interest of national security which was contrary to the anti-trust laws of the United States.[5]

Secretary Smith and Secretary Dulles agreed that this was substantially if not literally correct.

The Attorney General went on to point out that there were two phases to settlement of the Iranian oil problem. First, the phase of discussion or consultation now in progress, and second, the phase of execution of the plans which flowed from these consultations. The provisions of the Defense Production Act[6] safeguarded those involved in the first phase from charges of violating the anti-trust laws. The second phase, implementation of the plans, would, however, almost certainly involve violation. So far as he could see, said the Attorney General, it would prove necessary to go to the Congress for legislation to provide relief. Such legislation might be specifically directed toward the problem of the oil companies and Iran, or more broadly to all U.S. companies doing business outside the United States. Whichever course was chosen, however, would certainly involve great difficulties with the Congress, which would seize on the issue as a political football.

The National Security Council:[7]

a. Adopted the statement of policy on the subject contained in the reference report, subject to the following changes:

(1) *Page 2, paragraph 1-d:* Delete "to disrupt the free world pattern of petroleum production and marketing".
(2) *Page 5, paragraph 8-c:* Delete "the method employed by".
(3) *Page 7, paragraph 14:* Insert, after "internal security", the words "and providing some resistance to external aggression,".
(4) *Page 8, paragraph 15:*

> (a) Revise subparagraph c to read as follows:
>
> "c. If such a settlement has not been reached by April 1, 1954, review U.S. policy toward the problem in the light of circumstances then existing, including giving consideration to taking independent action with Iran, in order to bring about a resumption of revenues from its oil resources as a stabilizing influence in the Government of Iran tending to obviate the need for U.S. emergency economic assistance."
>
> (b) Add a new subparagraph d to read as follows:

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[5] For documentation regarding the development of U.S. policy regarding the applicability of antitrust laws to international petroleum companies, see vol. I, Part 2, pp. 1259 ff.

[6] The Defense Production Act of 1950, as amended, was signed into law on Sept. 8, 1950, as P.L. 81-774; for text, see 64 Stat. 798.

[7] Paragraphs a-d. were adopted verbatim as NSC Action No. 998. (S/S-NSC (Miscellaneous) files, lot 66 D 95, "Record of Actions by the NSC, 1953")

President Eisenhower subsequently approved NSC 175 and its Annex, as amended. For text of NSC 5402, see Document 402.

"d. In implementing actions under b or c above, seek to avoid establishing any precedent which would adversely affect United States interests in Middle East resources."

(5) *Page 8, paragraph 16:* Insert, after "economic aid", the words, "preferably in the form of loans,".

(6) *Page 9, paragraph 19–a:* Insert, after "provide", the word "some".

(7) *Page 12, paragraph 27:* Revise as follows:

* * * * * * *

b. Discussed the comments of the Joint Chiefs of Staff regarding the Annex to NSC 175, and agreed:

(1) That the comments regarding Part 3 of the Annex should be inserted as new paragraphs after paragraph 5 on page 14.[8]

(2) To refer the comments regarding Part 4 of the Annex back to the Joint Chiefs of Staff for reconsideration in the light of the Council discussion.[9]

c. Agreed to recommend that the President request the Attorney General to make a study, and report to the National Security Council, with reference to the constitutional authority, either with or without Congressional action or United Nations authorization, for the use of U.S. forces in reacting promptly to aggression seriously threatening U.S. security in Korea or elsewhere.

d. Discussed the relation of a settlement of the Anglo-Iranian oil controversy to United States anti-trust laws.

Note: NSC 175, as amended and approved by the President, subsequently circulated as NSC 5402 and referred to the Operations

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[8] In the Annex to NSC 175, paragraph 5 of Part 3 reads:

"5. It should be noted here that at the present time the U.S. has no commitment to employ U.S. forces in Iran. If it is found necessary for the U.S. to provide military forces in this area, implementation will require either an augmentation of U.S. forces or a reduction of present military commitments elsewhere." (S/S–NSC files, lot 63 D 351, "NSC 175—Memoranda")

[9] According to an undated, unattributed Department of State memorandum, the JCS also wished to have the following comments included in Part 4 of the Annex to NSC 175:

"(1) There are many political and religious differences within the Middle East which may militate against really effective cooperation among Turkey, Pakistan and Iran. The feeling is that Iraq will maintain a position of benevolent neutrality.

"(2) The Turkish forces have commitments to NATO which would prevent any substantial diversion of troops to help Iran. Any participation in the defense of Iran by Turkish forces would require, among other things, a reorientation of the Turkish effort as now conceived and probably an increase in planned Turkish strength.

"(3) At present, the limited combat effectiveness of Pakistan's forces precludes their use other than for the defense of their homeland.

"(4) The many weaknesses of the Iranian Army, including the low level of education, inept leadership, cumbersome system of command, supply and administration, and inadequate training, cannot be easily overcome. Considerable time will be needed to obtain any major increase in combat effectiveness." (S/S–NSC files, lot 63 D 351, "NSC 175–Memoranda")

Coordinating Board as the coordinating agency designated by the President. The recommendation in c above subsequently approved by the President.

[Here follows discussion of items 4–6, internal security legislation, United States civil administration in the Ryukyu Islands, and United States objectives and courses of action in Korea.]

S. EVERETT GLEASON

No. 402

[illegible]

Memorandum by the Special Assistant to the President for National Security Affairs (Cutler) to the Secretary of State[1]

TOP SECRET WASHINGTON, January 4, 1954.

1. On January 2, 1954, I briefed the President in Augusta on the matters covered at the Meeting of the National Security Council on December 30, 1953.[2]

2. Included in my account of the discussions relative to Iran, I said that the following points were made:

a. The prospect of the consortium (replacing AIOC) to market Iranian oil inevitably bring the cartel suit to the foreground, because the American members of the consortium would almost certainly include the big oil companies now charged with violations of the anti-trust laws.

b. Approval of NSC 175 amounted in substance, though not literally, to adoption of a policy in the interest of national security which is contrary to the anti-trust laws of the United States.

c. There were two phases to settlement of the Iranian oil problem: (1) The phase of discussion or consultation now in progress, and (2) the phase of execution of plans. The Defense Production Act[3] safeguarded those involved in the first phase from violation of the anti-trust laws. The second phase, implementation of plans, would almost certainly involve violations. Hence it would be necessary to go to Congress for legislation to provide relief.

d. Such legislation might be specifically directed toward the problem of the oil companies and Iran or more broadly to U.S. companies doing business outside the United States.

3. The President speculated for some time about the best procedure to follow in seeking to protect the national security by getting Iran on its feet through a resumption of oil operations. He made these points relative to the probable necessity of working out this

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[1] A copy of this memorandum was sent to the Attorney General.

[2] See *supra*.

[3] Reference is to the Defense Production Act of 1950, as amended.

problem through a consortium: (1) the President should have power to lay down conditions which would protect consumers; (2) would it be possible to deal with the problem through a treaty? (3) probably the best mechanics would be for the State Department to get together with the Foreign Affairs Committee and request the law as matter of primary concern to the national security, a procedure which he felt would be a better strategy than to have the request come up, as a legal matter, from the Attorney General.

He suggested that you and the Attorney General might wish to discuss this point together.

ROBERT CUTLER

No. 403

S/S–NSC files, lot 63 D 351, NSC 5402 Memoranda

Statement of Policy by the National Security Council[1]

TOP SECRET
[NSC 5402]

[WASHINGTON, January 2, 1954.]

UNITED STATES POLICY TOWARD IRAN

GENERAL CONSIDERATIONS

1. It is of critical importance to the United States that Iran remain an independent nation, not dominated by the USSR. Because of its key strategic position, oil resources, vulnerability to intervention or armed attack by the USSR, and vulnerability to political subversion, Iran must be regarded as a continuing objective of Soviet expansion. The loss of Iran, particularly by subversion, would:

a. Be a major threat to the security of the entire Middle East, as well as Pakistan and India.

b. Increase the Soviet Union's oil resources for war and its capability to threaten important free world lines of communication.

c. Damage United States prestige in nearby countries and with the exception of Turkey and possibly Pakistan, seriously weaken, if not destroy, their will to resist communist pressures.

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[1] NSC Executive Secretary Lay circulated this statement and the NSC Staff Study, along with a cover sheet and a background note dated Jan. 2, to members of the NSC, the Secretary of the Treasury, the Attorney General, the Director of the Bureau of the Budget, the Chairman of the Joint Chiefs of Staff, and the Director of Central Intelligence notifying them that President Eisenhower on Jan. 2, 1954, had approved the statement of policy contained in NSC 175 and its Annex as amended and adopted by the NSC, and that NSC 5402, "United States Policy Toward Iran", superseded NSC 136/1.

d. Permit the communists to deny Iranian oil to the free world, or alternatively to use Iranian oil as a weapon of economic warfare.

e. Have serious psychological impact elsewhere in the free world.

2. Due to the events of mid-August, 1953, there is now a better opportunity to achieve U.S. objectives with respect to Iran. The Shah's position is stronger and he and his new Prime Minister look to the United States for counsel and aid. Some Iranian leaders now seem to realize that Iranian oil is not vital to the world and that it must be sold in substantial quantities if Iran is to achieve stability. There is accordingly a possibility for the United States to help bring Iran into active cooperation with the free world and thus strengthen a weak position in the line from Europe to South Asia. An essential step in this direction is the receipt by Iran of substantial revenues from its oil resources. In the absence of such revenues, Iran will be dependent on external assistance which, if doled out only in minimum quantities to meet emergencies, will do little to create real stability, permit development or avoid future emergencies.

3. If the Shah cooperates, the Zahedi Government should be able to stay in power for some time. However, the Government is confronted with many serious problems, springing primarily from the basic changes taking place in Iranian society. Zahedi must cope with the Majlis, composed of heterogeneous groups, motivated by self-interest, upon whose support the enactment of essential economic and social legislation will depend. The communist and other opposition groups will continue to pose a threat. The problem of Mossadegh must be solved. Zahedi's position is also threatened by the Shah's inherent suspicions of any strong Prime Minister. Any non-communist successor government would encounter similar difficulties.

4. The United States now has an opportunity to further its national objectives with respect to Iran by: (a) facilitating an early oil settlement leading to substantial oil income from [*for*] Iran at the earliest possible date; (b) technical assistance and economic aid; (c) U.S. military aid.

Importance of an Oil Settlement

5. The Iranian economy is basically dependent upon agriculture. Despite revenues from the oil industry, the great majority of the Iranian people have lived in poverty. However, if it receives substantial revenues from the renewed operation of its oil industry on a sound basis, Iran should be in a position to establish a self-supporting, stable government, and carry out much-needed economic and social welfare programs. Without such revenues from the re-

newed operation of its oil industry, the Iranian Government will proceed from crisis to crisis, thereby greatly increasing both Tudeh Party opportunities to cause disorder or to infiltrate the government, and pressures on the United States for substantial aid. Even if Iran again receives oil revenues, there will be the continuing problem of insuring their application to programs of permanent value, and minimizing corruption.

6. In recent months some progress has been made in clarifying the positions of Iran and the UK toward a settlement. The resumption of UK-Iran diplomatic relations removes one obstacle to a settlement. However, the Iranian Government will continue to fear public reaction to any apparent concessions, and the British may be reluctant to accept necessary terms.

Economic Aid

7. In September 1953, the United States granted emergency assistance of $45 million to permit the Zahedi Government to meet the operating deficit inherited from the Mossadegh regime and to initiate essential monetary reforms. This aid is believed sufficient to carry the regime until May or June of 1954.

8. Until the oil revenues become substantial, emergency aid in some form will have to be continued and may have to be increased. In considering the timing and extent of such aid, the following factors must be kept in mind:

a. Too long a delay in the institution of economic and social reforms in Iran may make it impossible to seize the opportunity presented by present circumstances to increase Iran's political stability and economic health.
b. Granting of other than emergency aid prior to an oil settlement may make Iran less interested in coming to an early settlement and at the same time harm our relations with the UK.
c. The timing and extent of U.S. aid to Iran should not be such as to encourage other nations to emulate Iran in nationalizing her oil resources.
d. While the present government of Iran has shown itself to be favorably disposed to seek an early settlement of the oil dispute, too great or too obvious pressure from the outside may, because of internal political reasons in Iran, have the opposite effect.

9. In addition to emergency aid, the United States has a limited technical and economic assistance program for Iran of approximately $23 million for FY 1954. Even when substantial oil revenues are realized, it will be desirable to continue limited technical assistance to Iran for a number of years. Insofar as such assistance may effectively be provided through international or private agencies, local fears of U.S. imperialism will be minimized.

Military Aid

10. Iran has thus far received approximately $46 million in military aid from the U.S., and an additional $58 million is currently programmed. Inadequate training, maintenance and supply capabilities, and low caliber personnel restrict Iran's ability to absorb U.S. military equipment, even at the present rate of delivery. At present, the Iranian armed forces are capable of maintaining internal security against any uprising short of a nation-wide tribal revolt. It is possible that Iran will, in perhaps one or two years, be willing to move in the direction of regional security arrangements, assuming: (a) an early oil settlement; (b) continuation in power of a government friendly toward the West, which has the Shah's and widespread public support; and (c) a steady increase in the capability of the Iranian army. Iranian forces may be able to improve their capability for guerrilla and limited mountain operations, although it is unlikely that they could in themselves become capable within the foreseeable future of effectively delaying a strong Soviet thrust toward Iraq or the Persian Gulf. A long-range program of improving the Iranian armed forces should be related to the progress made toward effective regional defense plans which will provide Iran, in case of attack, with military assistance from adjacent states.

11. However, military aid to Iran has great political importance apart from its military impact. Over the long term, the most effective instrument for maintaining Iran's orientation toward the West is the monarch [*monarchy*?], which in turn has the Army as its only real source of power. U.S. military aid serves to improve Army morale, cement Army loyalty to the Shah, and thus consolidate the present regime and provide some assurance that Iran's current orientation toward the West will be perpetuated.

12. Neither the solution of the oil problem nor U.S. moral and financial support for Iran should be viewed as panaceas, but rather as measures which may permit Iran to achieve a condition of stability in which some modest progress may be made by Iran toward the working out of its own underlying problems. However, it should be recognized that physical execution of an economic development program, itself a time-consuming process, will be hampered by (1) lack of qualified Iranian administrative personnel, (2) the opposition of various vested interests, and (3) historically engendered suspicion of the West. Iran's long frontier with the USSR and the Soviet-Iranian Treaty of 1921 may affect the degree of Iranian cooperation, particularly military cooperation, with the United States.

OBJECTIVES

13. An independent Iran free from communist control.

14. A strong, stable government in Iran, capable of maintaining internal security, and providing some resistance to external aggression, using Iranian resources effectively, and actively cooperating with the anti-communist nations of the free world.

COURSES OF ACTION

15. a. Assist Iran again to obtain substantial revenues from its oil resources.

b. Assist in every practicable way to effect an early and equitable settlement of the oil controversy between the United Kingdom and Iran.

c. If on June 1, 1954[2] such a settlement is still unachieved, and it appears likely that the negotiations will fail, review U.S. policy toward the problem in the light of circumstances then existing, including giving consideration to taking independent action with Iran, in order to bring about a resumption of revenues from its oil resources as a stabilizing influence in the Government of Iran tending to obviate the need for U.S. emergency economic assistance.

d. In implementing actions under b or c above, seek to avoid establishing any precedent which would adversely affect United States interests in Middle East resources.

16. Pending the time when Iran shall receive substantial revenues from her natural petroleum resources, provide emergency economic aid, preferably in the form of loans, as necessary to the government of Iran, provided that it remains friendly to the U.S

17. Continue limited technical and economic aid to Iran. Where appropriate utilize such private institutions and international organizations as may provide technical assistance more effectively.

18. In carrying out the courses of action in paras. 15, 16 and 17 above, the United States should:

a. Maintain full consultation with the United Kingdom.

b. Avoid unduly impairing United States-United Kingdom relations.

c. Not permit the United Kingdom to veto any United States actions which the United States considers essential to the achievement of the objectives set forth above.

d. Continue efforts to have the United Kingdom and Iran agree to a practical and equitable solution of the oil problem at the earliest possible moment and, at the same time, have the United Kingdom give full support to the Zahedi Government.

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[2] No documentation has been found in Department of State files to explain the change of date in paragraph 15-c from Apr. 1, 1954 (see footnote 4, Document 401), to June 1, 1954.

e. Be prepared to avail itself of the authority of the President to approve voluntary agreements and programs under Section 708 (a) and (b) of the Defense Production Act of 1950, as amended.

19. Provide United States grant military aid for Iran designed to:

a. Improve the ability of the Iranian armed forces to maintain internal security and provide some resistance to external aggression.

b. Enhance the prestige of the monarchy and the morale of the Iranian Government and military services.

20. The amount and rate of such military aid to Iran should take into account:

a. The attitude of Iran with regard to this aid and with regard to political, economic and military cooperation with the free world, including Turkey, Pakistan, and possibly Iraq.

b. Iran's ability satisfactorily to absorb military equipment and training, and its willingness at an appropriate time to formalize necessary contracts for military aid and training.

21. Encourage Iran to enter into military cooperation with its neighbors as feasible, and to participate in any regional defense arrangement which may be developed for the Middle East.

22. Recognize the strength of Iranian nationalist feeling; try to direct it into constructive channels and be ready to exploit any opportunity to do so, bearing in mind the desirability of strengthening in Iran the ability and desire of the Iranian people to resist communist pressure.

23. Encourage the adoption by the Iranian Government of necessary financial, judicial and administrative and other reforms, including provision for an orderly succession to the crown.

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25. In the event of either an attempted or an actual communist seizure of power in one or more of the provinces of Iran or in Tehran, the United States should support a non-communist Iranian Government, including participation in the military support of such a government if necessary and useful, and should attempt to secure additional support from other free world nations.[3] Preparations for such an eventuality should include:

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[3] At the present time the United States has no commitment to employ U.S. forces in Iran. If it is found necessary for the United States to provide military forces in this area, implementation will require either an augmentation of United States forces or a reduction of present United States military commitments elsewhere. [Footnote in the source text.]

a. Plans for military support.

* * * * * * *

c. Plans for UN action.

d. Liaison with United Kingdom, to the degree deemed desirable, concerning each of these plans.

26. In the event that a communist government achieves complete control of Iran so rapidly that no non-communist Iranian Government is available to request assistance, the position of the United States would have to be determined in the light of the situation at the time, although politico-military-economic discussions leading to plans for meeting such a situation should be carried on with the British Government and with such other governments as may be appropriate. In this contingency, the United States should make every feasible effort, . . . to endeavor to develop or maintain localized centers of resistance and to harass, undermine, and if possible, to bring about the overthrow of the communist government.

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Financial Appendix

EXPENDITURES

(millions of $)

	FY 1951	FY 1952	FY 1953	FY 1951–53	FY 1954 (Est.)	FY 1955 (Est.)	FY 1956 (Est.)
Technical Assistance and Special Economic Aid	0	4.9	19.7	24.6	32.9	29.0	23.0
Emergency Aid	0	0	0	0	45.0	[4]37.0	[5]0
Military Assistance[6]	—	—	—	45.9	34.5	25.6	12.2
Total	0	4.9	19.7	70.5	112.4	91.6	35.2

NSC Staff Study on Certain Problems Relating to Iran

PREFACE

1. Review of U.S. policy toward Iran has shown a need for detailed study of certain selected problems. NIE 102 "Probable Developments in Iran Through 1954",[7] provides a timely study of the

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[4] On assumption that no net oil revenues will be realized. [Footnote in the source text.]

[5] On assumption net oil revenues are realized. In the absence of such revenue, emergency aid in some form will have to be continued. As a tentative estimatge this might amount to $50–55 million in FY 1956. [Footnote in the source text.]

[6] Represents the value of end-items shipped plus expenditures for packaging, handling, crating, transportation, and training. [Footnote in the source text.]

[7] Document 387.

present political situation in Iran and the problems which Zahedi or any successor non-communist Premier must face. This staff study is therefore confined to an analysis of six problems as follows:

Part 1, Survey of the Oil Problem
Part 2, Report on the Economic Situation in Iran
Part 3, The Strategic Importance of Iran
Part 4, Support of the Iranian Armed Forces
Part 5, Significance of Section 708(a) and (b) of the Defense Production Act of 1950, as Amended
Part 6, Significance of the Irano-Soviet Treaty of 1921

PART 1

IRANIAN OIL PROBLEM

1. It is important to settle the Anglo-Iranian oil dispute so that: (a) Iran may become self-supporting through receipt of substantial oil income; (b) an irritant in Iran's relations with the free world may be removed; (c) the present pattern of international oil business is not damaged; (d) no precedent is set to the detriment of United States investment abroad.

2. Any settlement must take into account a wide and complex range of economic and political factors involving Iranian, British and United States interests.

Political Factors in Iran

3. The political aspects of the oil situation in Iran are inextricably bound up with the nationalization of the oil industry in 1951. The Iranians are convinced that the British used their position in Iran to influence internal affairs. They also believe that Iran did not receive a fair share of oil income. The matter became a political issue and was used by Mohamed Mosadeq and his nationalist followers to achieve power and drive the British oil company and government representatives from Iran. This movement was supported by the majority of articulate Iranians and its success is treasured by most Iranians as a national victory over the powers of foreign imperialism.

4. The fall of Mosadeq and subsequent attempts to discredit him and his close followers have not changed the general Iranian belief that nationalization of the oil industry was an important and necessary step forward for Iran. The Zahedi government, with some foreign assistance, has stressed with some apparent success the importance of turning this "victory" to some constructive use. Government propaganda points out that oil remaining in the ground is of no value to the Iranian people. This propaganda does not attack the concept of nationalization.

5. There remain, therefore, two major political factors on the Iranian side which must be recognized: (a) public opinion holds strongly to the view that "national honor and integrity" require that any settlement of the oil problem be within the framework of the nationalization laws; (b) widespread suspicion of the British is so profound that it is most improbable that any contract providing for the establishment of a British-controlled organization in Iranian oil fields could now even be set up.

Economic Factors Confronting Iran

6. Without oil income or foreign aid, the financial position of the Iranian Government will be precarious. Indeed, maintenance of its oil industry in the absence of sales abroad presents a constant drain on the treasury. Oil revenues represented over half of the government's foreign exchange income and a third of its total income. There is no other source of revenue or foreign exchange available to the Iranian Government (except foreign aid) which can replace the great amounts available from a resumption of the Iranian oil industry on an efficient full-scale basis.

7. A surplus of oil now exists in the Middle East and will continue to exist for some time whether Iranian production becomes available or not. Proven oil reserves in Saudi Arabia, Kuwait and Iraq are sufficient so that any one of them could probably meet the total demand for Middle East oil entirely by itself, though perhaps with some difficulty. Certainly any two of these countries could do so without undue strain. This fact was totally unappreciated by Mosadeq, who clearly expected the world to beg for Iranian oil on his terms. The Shah and Prime Minister Zahedi have received considerable education in this regard and the government's propaganda ministry is attempting to explain these facts to the Iranian public.

8. Virtually all Middle East crude production on net balance, flows to Eastern Hemisphere markets. About 75 percent is consumed in Europe, while the rest is divided between Africa, the Far East, South Asia and the South Pacific. There is very little market in the Western Hemisphere, nor will there be for some years to come in view of the potential surpluses that exist in that region. In fact, if there should be any appreciable flow of Middle East oil to the United States within the next few years and especially if it is the result of price cutting in the Persian Gulf area, there unquestionably would be severe economic and political repercussions in the Western Hemisphere.

9. It therefore follows that if appreciable production is to be attempted in Iran it must flow again into Eastern Hemisphere mar-

kets, and that no appreciable market will develop in the Western Hemisphere at least for some years.

10. Almost all Middle Eastern crude oil and refined products are produced and marketed by seven large international oil organizations. At least 90 percent of the ultimate retail distribution is handled by these companies, or their subsidiaries and affiliates. There are a few lesser companies who also distribute a minor amount of oil but they are not of appreciable size nor do they have large outlets available. It is necessary for Iran to consummate some form of agreement with an entity which will include the major marketing companies, if an appreciable amount of Iranian oil is to flow to market.

11. The possibility of developing fresh distribution channels of importance outside those afforded by the larger companies does not exist for the following reasons:

a. New private companies entering the international oil distribution business in the Eastern Hemisphere would be at a hopelessly great disadvantage in competing in the present world situation with those companies which are already well established.

b. Those few governments in the world which are endeavoring to operate their own refining and distribution systems offer an extremely limited outlet for Iranian oil.

It is estimated that the sum of these channels could not purchase as much as 100,000 barrels per day of Iranian oil. In many cases, particularly in dealings with foreign governments, income to Iran would have to be received on a barter basis and this would offer obvious disadvantages. Furthermore, a distribution policy based upon sales to a number of small private companies or to foreign governments would not be of a character which would guarantee a steady flow of oil. Under such conditions it would not be possible to operate wells or refineries in an effective, continuous or economic manner.

12. If distribution can be obtained through the major companies, however, a volume of from 400,000 to 800,000 barrels per day could be achieved within approximately a two- or three-year period after resuming operations. This output is comparable to the average offtake of about 650,000 barrels per day which was reached prior to the shut-down in 1951.

13. The refining situation in Iran presents a parallel condition to that which exists in crude oil production. The trend in recent years has been toward refineries located close to points of consumption rather than at sources of production. In many cases governments have forced this relocation of refineries either by direct legislation or by means of tariff differentials. In 1945, 82 percent of all the oil refined in the Eastern Hemisphere was processed in the Middle

East. By 1953 this volume had declined to 19 percent of the total. The European refineries in 1945 processed only 6 percent of this total, but by 1953 their proportion had risen to 63 percent. Large additional refining capacity is now under construction in Europe, South Asia, and the South Pacific. In every case these refineries are close to their consuming markets.

14. The Abadan refinery, largest in the world, formerly had a through-put in excess of 500,000 barrels per day. Since the shutdown it has fallen into considerable disrepair, and an expenditure variously estimated from $30,000,000 to $60,000,000 will be required to place it back into partial operation. Even with a reduced through-put of 300,000 barrels per day a severe marketing and distribution problem will be encountered. This will be especially true in view of the trend, already noted, of processing at points close to consumption rather than at the sources of production. The only outlet for such a large volume of refined products is through the combined marketing systems of the major oil companies operating in the Eastern Hemisphere. Furthermore, this refinery can be operated and managed most efficiently if it becomes an integral part of these distributing organizations.

15. Since Iran does not have the marketing facilities or the resources to acquire them, it can only be considered as a supplier. As a supplier, Iran must compete with other Middle East sources of petroleum in order that marketing companies, with which Iran must deal as shown above, will not be penalized in shifting their requirements from their own sources in the Middle East to Iran.

16. Before any sales agreement could be entered into, assurances would undoubtedly be required by any marketing company that there would be performance by the supplier in accordance with the strict standards of the industry. This requirement is generally interpreted by the industry to mean that there must be effective foreign management of Iranian oil production. Techniques to accomplish this, within the framework of the nationalization law, range from suggestions that the IBRD be an intermediate agent to consideration of the restoration of a foreign oil concession in Iran under some terms of contract with the National Iranian Oil Company.

17. The existing net income, in the form of royalties and taxes received by various Middle Eastern countries, is at present approximately from 70 to 80 cents per barrel. Saudi Arabia will receive a net income in excess of $200 million for the year 1953. Kuwait and Iraq are receiving proportional amounts dependent upon their actual production. Since Iranian oil must compete commercially with other Middle Eastern oil and no distributing company, capable of handling substantial quantities of Iranian oil, could afford to pay Iran more for its oil than the cost to it of oil received from

other Middle Eastern countries, Iran can expect, with a volume of sales of 400,000 to 800,000 barrels daily, distributed through the large companies, to receive $100 million to $200 million each year. As the markets increase from year to year the income should grow proportionately. If, on the other hand, Iran chooses to sell direct through some of the smaller outlets, with a production of approximately 100,000 barrels per day, the annual net income would be only about $20,000,000. It is estimated that an annual net income of not less than $100,000,000 is required to maintain a stable economy in the country.

18. The oil problem in Iran is not one of slowly building up the producing and refining facilities, with a correspondingly gradual entrance into the world's market. On the contrary, in this instance one of the world's largest producers and refiners of oil, with its facilities already fully developed, must be put back into full operation within the shortest possible period of time. There is not time to develop new marketing outlets or alternate systems of distribution. The maximum possible quantity of oil and refined products must be injected immediately into the existing channels of distribution, with corresponding cut-backs in other Middle Eastern producing countries.

19. The Government of Iran is therefore on sound economic grounds when it insists that any solution of the oil problem shall include all, or at least a majority, of the large international oil companies now operating in the Middle East. The Government also has excellent political reasons for adopting this policy.

20. There are still further economic reasons for reaching such a decision. Without going into detailed figures, it is estimated that between $10,000,000 and $20,000,000 will be required to put the producing, pipeline, storage and loading facilities in Iran back into operation again. When added to the amount required to put the refinery on stream, the total new investment will be probably between $40,000,000 and $80,000,000.

21. The financial situation of Iran is so critical, as noted above, that in the event an agreement can be worked out it will be necessary for the companies to make substantial advances to the Government before oil shipments can reach appreciable levels. Such advances, to be repaid out of subsequent revenues, would have to be on the order of $7,500,000 to $10,000,000 per month, or at the approximate rate of $100,000,000 per year, and a guaranteed minimum revenue of at least the same amount annually would have to be included in any such agreement. It is estimated that the funds so advanced would reach a maximum of from $50,000,000 to $75,000,000 and that a period of from two to five years would be required for their repayment. The total investment required by the

oil industry, therefore, will probably be from $100,000,000 to $150,000,000. Only a combination of the largest units in the industry would have such capital available, and at the same time be able to furnish the additional working funds to carry forward the operations.

22. A summary of the economic considerations listed above shows that any settlement must take into account the following:

a. Large-scale operations are a necessity, involving the maximum possible production and the largest possible income to Iran.

b. All major companies now operating in the Middle East should participate in order to achieve maximum off-take, facilitate the cut-back problem in other countries, minimize the future domination by any one organization, and provide maximum diversification of market.

c. Iran's income must be not less than the highest received by other countries in the Middle East on a per barrel basis.

d. Settlement must not establish a precedent adversely affecting the presently established international oil industry in a way inimical to U.S. interests.

Political Factors in Great Britain

23. British officials have asserted that they would face a serious domestic problem if any settlement of the Anglo-Iranian oil dispute reflected adversely upon British prestige. They have stated that their maximum concessions were stated in the February 20 proposals, which Mosadeq rejected.

24. Also for political reasons, the British insist that they cannot open negotiations with the Zahedi Government on the oil problem until after receipt of a report which they hope to have by January from their own diplomatic representatives in Iran.

25. The British have given assurances on a high level that they will not undermine the Zahedi Government while seeking an oil settlement and will move as rapidly as possible to achieve such a settlement on terms which will not be indefensible by Zahedi before the Iranian people.

Economic Factors Affecting British Interests

26. The British have only reluctantly entertained the idea that an international consortium would replace the AIOC as producer and marketer of Iranian oil. However, Sir William Fraser, Chairman of the AIOC, has invited representatives of five major American oil companies and of Shell to conversations in London regarding the establishment of such a consortium.

27. The British have insisted that settlement of the oil dispute should not result in damage upon Britain's dollar position. They also insist upon payment of compensation either directly by the Iranian Government or through some contract arrangement with

the international consortium, for "the loss of their enterprise in Iran."

(*Note:* This problem is at present under active consideration by the British and Iranian Governments, while U.S. influence is being exerted primarily through persons of Mr. Herbert Hoover, Jr., Special Consultant to the Secretary of State on oil affairs, and of Loy Henderson, U.S. Ambassador to Iran. Although general lines of a settlement have been blocked out, no firm position has been taken on either side.)

PART 2

THE ECONOMIC SITUATION

1. Iran's economy is basically agricultural. Some 80 percent of the people depend upon agriculture for their existence. The average Iranian peasant is used to an extremely meager existence and has little to do with anything outside his village. The only imported commodity which is consumed in any quantity by the bulk of the Iranian people is sugar. During good agricultural seasons, the Iranian peasant eats a little more and eats a little better. During poor seasons he "pulls in his belt."

2. The loss of oil revenue (since nationalization of the oil industry in the spring of 1951) has not greatly affected the existence of the peasants. The urban sector of the population, however, is more heavily dependent on imports and has been more seriously affected since, in the period immediately prior to the nationalization of the industry, Iran was receiving about two-thirds of its total foreign exchange revenue through the operations of the oil industry.

3. The loss of revenue from the oil operations created a serious crisis for the Iranian Government since, directly or indirectly, it was obtaining very close to one-half of its total revenue from these operations. The bulk of Government expenditures represents salary payments which could not be readily reduced. In addition, it was politically necessary for the Government to assume the salaries of the former AIOC employees. As a result, reductions in Government expenditures since oil nationalization have not been substantial. For the most part, they have consisted of such "gestures" as the selling of office rugs and official automobiles. Laws were passed designed to increase tax revenues and make the tax burden more equitable, but tax revenues have not been significantly affected.

4. For the first year after the nationalization of the oil, the Iranian Government made up for the loss of revenues from oil operations primarily by selling foreign exchange, using $62 million of reserves and obtaining $8.75 million from the International Monetary Fund.

5. By mid-1952, however, this source of funds was exhausted since, under the prevailing laws, the remaining gold and foreign exchange reserves of approximately $180 million had to be retained as cover for the currency. In this situation, Mossadeq compelled the Central Bank to issue additional rial notes, exceeding the limit set by statute. With this additional note issue, the Iranian Government paid its bills.

6. During the period when the Government was meeting its deficit by selling foreign exchange, imports were maintained at something approaching the normal level and no serious inflationary pressures developed. However, when the Government turned to the issuance of additional rial notes to meet its deficit, imports had to be cut 40 to 50 percent. With the amount of currency in circulation increasing and the goods available for use in economy decreasing, inflationary pressures developed rapidly and grew to serious proportions, although they were felt more slowly in the rural areas.

7. Thus, when the Zahedi Government came to power, it was faced with rapidly developing inflation, no means of fully financing minimum Government expenditures except by further inflationary measures, and inadequate supplies of foreign exchange to pay for necessary imports.

8. In this situation the United States made available emergency aid in the amount of $45 million. The funds are being used: (a) to purchase sugar and other commodities for sale to the Iranian people for rials, (b) for direct sale of dollars to Iranian importers, again to produce rials for the Government, and (c) to serve as note cover for an additional issue of rial notes. The first two of these methods produce rials for the Government only to the extent that they can be absorbed by the foreign exchange market without interfering with sales of ordinary exchange receipts. It is anticipated that this $45 million will permit the Iranian Government to meet its major budgetary needs, at least through the current Iranian year which ends in March 1954, and perhaps until May or June.

9. The latest data regarding Iran's current financial operations indicate that the Government is incurring a budgetary deficit of about 400 million rials per month. Allowing for customary year-end bonus payments, this amounts to a deficit of about 5 billion rials per year. At the recently established rate of 90 rials to the dollar, this is the equivalent of about $55 million. In the absence of any change in the currency laws, the Iranian Government has no legal means of obtaining the rials to meet this deficit. By revising the legal basis for the currency issue, additional rials could be printed. This would, however, add to the inflationary pressure and would not provide the means for financing increased imports.

10. Iranian foreign exchange requirements and sources of foreign exchange are shown in the following table:

Millions of dollars

Requirements	*Year Ending March 20, 1950*	*Year Ending March 20, 1951*	*"Emergency Basis" annual rate*
Imports	192	147	120
Government expenses and noncommercial items	11	30	25
Total requirements	203	177	145
Sources			
Exports	37	62	70
Oil operations	110	115	0
Special British railway settlement	23	0	0
Miscellaneous	3	4	0
US technical and economic assistance program	0	0	23
Foreign exchange reserves	30	-4	0
Total sources	203	177	93
Residual Requirement for Emergency Aid	—	—	52

11. On the basis of the above presentation, U.S. emergency aid at a rate of $50 to $55 million a year along with the continuation of the current technical and economic aid program ($23 million) would meet the minimum budgetary and foreign exchange requirements.

12. This type of program would not provide the Government with financing for any economic development program other than that included in the present U.S. technical and economic aid program. The Zahedi Government has committed itself to a development program designed to raise the standard of living and reduce unemployment. This program calls for an annual expenditure of 3.9 billion rials ($43 million) and there is a risk that any Iranian Government which does not begin to make good on these commitments cannot maintain itself in power. Insofar as the Government begins to carry out these commitments, it adds directly to the budget deficit which it must meet.

13. Furthermore, the Iranian Government may well be faced with the political necessity of extending wage increases and making other costly concessions which would further increase its rial requirements. This would of course also add to the budget

problem and, if undertaken, to present inflationary pressures which are already serious.

14. It thus appears that if the technical and economic assistance program is continued at approximately the present $23 million annual rate, emergency economic assistance at a rate of at least $50 to $55 million a year will be required until the country again begins to receive substantial revenues from oil operations. As noted in paragraphs 12 and 13 this would not provide any margin to meet expenditures which might have to be undertaken as a result of political pressures. An additional $10 to $15 million may have to be made available in the current U.S. fiscal year.

15. A special contingency fund of $45 million for the whole area of the Near East and Africa has been included in the FY 1955 budget, some of which might be available for Iran in the event that substantial oil revenues are not flowing by that time. These funds would be additional to the technical and economic program which would be continued at approximately the current level of $23 million.

PART 3

STRATEGIC SIGNIFICANCE OF IRAN

Importance to Defense of Middle East

1. The strategic importance of the Middle East to the United States and its allies has been described in NSC 155/1.[8] . . .

2. Iran constitutes a blocking position from which to oppose any Soviet operation launched across the Caucasus for the purpose of encircling Turkey, attacking the Suez Canal or seizing the Persian Gulf area. Because of its geographical location on the periphery of the USSR and its key position in relation to the other countries of the Middle East, Iran can offer valuable base sites, with logistic support provided from the Persian Gulf, for any allied attack which may be mounted against the USSR from the Middle East.

3. Iran also constitutes a blocking position from which to oppose any Soviet operation aimed at depriving the free world of Middle Eastern oil resources. At the present time our allies in Western Europe are dependent upon Middle East oil resources. Unless adequate petroleum products are available for its essential requirements, Western Europe is not defensible, our investment in its rehabilitation will be dissipated, and it will be lost and become a liability to the free world. It has been estimated that by 1975 Europe will be dependent upon the Middle East for at least 90% of its

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[8] For text of NSC 155/1, "United States Objectives and Policies With Respect to the Near East", July 14, 1953, see vol. IX, Part 1, p. 399.

peacetime crude oil—requiring imports of 3.7 million B/D. Likewise the United States, by 1975 will require peacetime imports of 1.2 million B/D of Middle East crude oil (8.8% of total peacetime requirement). Therefore, unless the essential and greater allied wartime requirements, including those of the United States, can be met from other sources, provision must be made to insure the continued wartime availability of the petroleum resources of the Southwest Persian Gulf area. It has been estimated that these requirements can be met by continued operations in the Kuwait and Saudi Arabian fields. The Allies must therefore deny to the Soviets those areas of Iran from which the USSR can launch air or ground attacks designed to prevent Allied oil production in Kuwait and Saudi Arabia.

4. For these reasons Iran is of great strategic importance in the forward defense of the western Mediterranean and Persian Gulf areas.

5. It should be noted here that at the present time the U.S. has no commitment to employ U.S. forces in Iran. If it is found necessary for the U.S. to provide military forces in this area, implementation will require either an augmentation of U.S. forces or a reduction of present military commitments elsewhere.

6. The line which would have to be defended in order to protect Turkey and Pakistan against Soviet invasion through Iran, although mountainous, is much too extensive to permit any effective defense by Iranian forces alone in the foreseeable future.

7. The rugged terrain and lack of communications in this part of the Middle East make effective support of Iran extremely difficult.

Importance to Russian Expansion

8. There is a long historical record of Russian interest in gaining control of the Iranian plateau and its warm-water ports on the Persian Gulf. Peter the Great's strategy for Russian expansion foresaw a need for Russian occupation of the Iranian plateau. Nazi-Soviet diplomatic conversations resulted in 1940 in a draft agreement "that the area south of Batum and Baku in the general direction of the Persian Gulf is recognized as the center of aspirations of the Soviet Union."[9] The USSR is extremely sensitive to developments along its borders. It usually has sought to protect its frontiers with a cordon of satellite states. Efforts to retain Soviet troops in Iran after the end of the last World War and to establish a puppet communist government in Azerbaijan in 1946 proved Soviet interest in obtaining control of at least the northern area of Iran. Further evi-

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[9] *Nazi-Soviet Relations 1939–1941, Documents from the Archives of the German Foreign Office.* [Footnote in the source text.]

dence of Soviet concern over the vulnerable Iranian frontier has been a series of truculent Soviet notes to recent Iranian governments protesting the presence of American military missions and oil drillers in Iran. Each note referred, as a basis for the protest, to Article VI of the 1921 treaty between the USSR and Iran (see Part 6).

9. If air bases were to become available to the USSR in Iran, light bombers of the Soviet Air Force would be able to operate throughout the region of the Persian Gulf. Iranian bases could also support Soviet ground and air attacks against the upper Tigris-Euphrates valley and thence westward toward the Mediterranean. East-West lines of communication would be threatened. Communist control of Iran would also provide an excellent base for political penetration of Pakistan on the East and the Arab states on the West. Communist theoreticians have described the conquest of Iran as the key to the success of communist designs on Asia, and particularly India.[10]

10. While the USSR does not require the oil reserves and facilities of Iran for further development of her peacetime economy or to insure her ability to wage war, the acquisition or control by the Soviets of these reserves and facilities would have the following estimated effects:

a. *In time of peace*

(1) Serve to augment existing Soviet oil and gasoline stocks thereby boosting Communist economy and preparations for war.

(2) Provide additional power to wage economic warfare through "dumping" methods designed to disrupt the oil markets of the West.

b. *In time of war*

(1) Provide oil and gasoline stocks for local military operations in the Middle East and for Soviet submarine refueling in the Persian Gulf.

(2) Deny the use of the Iranian fields to the allied coalition as a wartime petroleum source.

Significance to Neighboring States

11. The significance of the fall of Iran into communist hands has to be measured in more than military terms. Friends of the West in the Arab nations would undoubtedly be grievously discouraged by the inability of Iran to maintain its independence within the community of free nations. Friends of international communism would be greatly encouraged; while those who have sought to main-

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[10] G. Lenczowski, Russia and the West in Iran. [Footnote in the source text.]

tain a so-called neutral attitude would undoubtedly have their fears of choosing sides emphasized. Of course, it is possible that Arab governments might draw a lesson from the fall of Iran and take more active measures to resist communist pressure. Even this however would not counterbalance the advantage to the Soviets of gaining additional territory from the free world and of having a better base for propaganda and special political action in the Middle East.

12. As to the effect upon Turkey and Pakistan, it is obvious that these two nations would be prevented by a communist Iran from maintaining effective military cooperation. Both nations would find themselves with newly exposed frontiers open to communist military action or political subversion. It is probable that Turkey's determination to resist Russian aggression would not be lessened by this event, but the question of Pakistan's reaction is not so clear.

13. It would also be a shock to the whole community of free nations should Iran become a satellite of the USSR. U.S. prestige throughout the world would suffer and the concept of communal security would be weakened.

PART 4

SUPPORT OF IRANIAN ARMED FORCES

Current United States Military Assistance

1. There are two United States military advisory missions in Iran (the U.S. Mission to the Iranian Army and the U.S. Mission to the Iranian *Gendarmérie*) in addition to the Military Assistance Advisory Group (MAAG) which supervises the handling of U.S. military aid to Iran. Since the program began in 1950, a total of 101.4 million in military aid has been programmed for Iran, of which only 45.9 million has been delivered (including the value of end-items shipped plus expenditures for packaging, handling, crating, transportation, and training).

The Shah's Request

2. The Shah has stressed the necessity for an early decision as to whether his armed forces are to be treated merely as a police force to maintain internal security or both as a police force and defense force, capable of delaying the progress of an enemy if Iran should be invaded.

Ambassador Henderson's Recommendations

3. The Ambassador has recommended that the United States should accede to the request of Iran to assist in reorganizing, rearming and retraining the armed forces of Iran so that:

a. These forces will be capable of strong withdrawal-delaying action if Iran should be invaded by the armed forces of international communism;

b. These forces may eventually be employed in cooperation with the armed forces of other free Middle Eastern countries in a common defense of the Middle East against international communist aggression in accordance with any regional defense arrangements which may later be developed.

4. The Ambassador amplified upon his recommendation in the following terms:

"I make this recommendation partly for psychological reasons. It is my belief that unless the Shah, the Iranian Government, the members of the Iranian armed forces and the Iranian public are convinced that western powers expect Iran to defend itself if invaded by the armed forces of international communism, and unless the U.S. indicates this expectation by assisting the Iranian armed forces to prepare to maintain a strong withdrawal-delaying action, the determination of Iran to suppress internal communist activities and to resist external communist pressure will be seriously affected. It is also my belief that until Iran is convinced that its armed forces are capable of contributing to the common defense of the Middle East, there is little likelihood that effective arrangements can be worked out for such defense."

Iranian Attitudes

5. The Shah has stated that until Iran has an army capable of putting up some kind of defense, it would be useless to discuss multilateral security arrangements. Ambassador Henderson believes that the Shah and Zahedi would probably be willing to undertake such arrangements if (1) Iran is more on a basis of equality with its neighbors in military capabilities, and (2) if the combined strength of the countries participating in a defense arrangement is sufficient to discourage Russian aggression. The Ambassador also believes that in perhaps one or two years Iran might be willing to move in the direction of an area security arrangement, assuming

a. An early oil settlement.

b. A steady although not necessarily spectacular increase in the capability of the Iranian Army.

c. Continuation in power of a government friendly toward the West which cooperates fully with the Shah and which has widespread public support.

The Ambassador points to the dilemma which would arise if an increase in U.S. military aid to Iran is predicated upon Iranian participation in regional defense arrangements. The Shah has stated that he cannot consider cooperative arrangements until his army has improved. The U.S. would forestall any progress if it refused to build up Iranian armed forces until after defense arrangements had been concluded. The Ambassador has quoted the Shah as urging the U.S. to act with optimism in order to inspire optimism.

6. Although the Zahedi Government, on balance, seems to be holding its own, it is confronted with a number of immediate problems, the decision upon any one of which could cause grave complications. Public reaction to the government's disposition of these matters, the ability of the government to continue to maintain security and effectively quell opposition, and the degree of continued cooperation between government and Shah, are points which will have a heavy bearing upon the very future of Iran. The Iranian Government will thus be too pressed in the immediate period ahead for it to consider at this time injection of another issue, i.e., mutual defense arrangements, which it can avoid and which at best would incur widespread internal opposition and new external pressures. Probably no real progress can be made in obtaining Iranian decision in this matter until other problems more pressing to them are solved and resultant public attitudes determined. Even then, any concrete action should be preceded by a substantial period of public orientation to the need for collective defense measures and the desirability of "getting off the fence" in the cold war, which would be another entirely new departure for most Iranians.

Soviet Threat

7. It must also be recognized that the Soviet Union constitutes a constant, overwhelming, armed threat to Iran. The Iranians do not see any equally potent force on their frontiers willing and able to oppose the Soviet Union successfully. They are not encouraged by the Korean precedent. They will undoubtedly be very cautious toward any policy which may appear provocative to the USSR. This attitude must be taken into account in any planning toward including Iran in regional arrangements with anti-Soviet implications.

Regional Aspects

8. Turkey, Iraq and Pakistan have the capability of contributing significant forces to the defense of the area provided that proper equipment is furnished from outside sources. The situations in Pakistan and Turkey are substantially different than Iran. Ambassador Henderson believes that it would be useful at the proper time for the Turks and Pakistanis either to take the lead in discussions with Iran and Iraq or at least to closely associate themselves with any proposals which might be put forward. He speculates that favorable action by Iran and Iraq would probably be predicated upon firm commitments from the U.S. in the matter of military aid and would probably exclude the U.S. staying in the background even if it should otherwise be desirable to do so.

9. Indian policies under Nehru undoubtedly will be unalterably opposed to participation by Asian countries in measures of this kind. India opposes military aid to Pakistan. It is unlikely, of course, that the Indian attitude would have much bearing on Pakistan's decision. However the U.S. should not overlook the importance which Iran attaches to India. A strong adverse Indian reaction could have heavy influence in Iran. There is evidence that the Indian Ambassador to Iran already has been endeavoring to discourage Iranians from any idea of participating in a security pact. Also, the extent to which the Indian attitude will influence the British is a consideration having an important bearing on practicability of proposals.

10. Because of British interest in the area and close British relationship with Iraq and Pakistan, it seems necessary that the British be brought into the picture at an early stage and certainly before any definitive discussions with Iran, Iraq or Pakistan, in all of which they have particular interest. In fact it is unlikely that arrangements of this type could be undertaken without British cooperation.

British Attitudes

11. The British have already indicated that the Shah should be told that the U.S. and U.K. would encourage the building up of Iranian military forces into two components:

a. A static garrison force primarily designed for the maintenance of internal security.

b. A highly trained, active, mobile force, probably to be stationed in the northwest, to be not too heavily armed, which could act as a harassing force in the event of invasion and which would be useful in keeping up morale and in the training of an officer cadre. Discussion with British representatives has also revealed that the U.K. is less inclined than the U.S. to accept the thesis that Iran can develop a useful military force and they are also more inclined to discount the possibility of an eventual defense of at least some portions of Iran. There is agreement, however, that it would be difficult, if not impossible, to decide on major plans for the Iranian Army in the absence of a plan for the defense of the area as a whole.

12. Any statement of policy should, therefore, be sufficiently broad to allow U.S. officials to plan for and support a gradual increase in Iran's military capabilities and to answer the Shah's request without discouraging him or, on the other hand, making commitments beyond Iran's absorptive abilities.

PART 5

SIGNIFICANCE OF SECTION 708 (A) AND (B) OF PUBLIC LAW 774—81ST CONGRESS

1. It appears at present that an essential element of settlement of the Anglo-Iranian oil dispute will be the establishment of a cooperative group of major oil companies to produce and market Iranian oil. If American oil companies are to join such a group, they run the risk of violating United States anti-trust legislation. The statement of policy on Iran foresees this problem and makes specific reference to the authority possessed by the President to grant exceptions to anti-trust laws if he finds such voluntary agreements or programs "to be in the public interest as contributing to the national defense".

2. Pertinent sections of the Defense Production Act of 1950, as amended, are quoted below:

> "Sec. 708. (a) The President is authorized to consult with representatives of industry, business, financing, agriculture, labor, and other interests, with a view to encouraging the making by such persons with the approval by the President of voluntary agreements and programs to further the objectives of this Act.
>
> "(b) No act or omission to act pursuant to this Act which occurs while this Act is in effect, if requested by the President pursuant to a voluntary agreement or program approved under subsection (a) and found by the President to be in the public interest as contributing to the national defense shall be construed to be within the prohibitions of the anti-trust laws or the Federal Trade Commission Act of the United States. A copy of each such request intended to be within the coverage of this section, and any modification or withdrawal thereof, shall be furnished to the Attorney General and the Chairman of the Federal Trade Commission when made, and it shall be published in the Federal Register unless publication thereof would, in the opinion of the President, endanger the national security."

3. It is of interest to note that on November 26, 1952, President Truman requested the Secretary of State "to engage in exploratory discussion with representatives of United States oil companies and with the Anglo-Iranian Oil Company for the purpose of determining what type of action by (the President) would produce the result desired." The President, giving this instruction, referred to the authority granted him by Congress in Section 708 (a) and (b) of the Defense Production Act of 1950, as amended.[11]

4. On December 4, 1952 representatives of the major American oil companies assembled at the Department of State for explorato-

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[11] See Document 243.

ry discussions, under the following terms of reference as stated by the Acting Secretary of State:

> "In the light of the national defense considerations implicit in finding a solution to the Iranian oil problem, I have been requested by the President to engage in exploratory discussions with you (or your authorized representative) and other officers of United States oil companies for the purpose of determining what type of action by them might contribute to producing the result desired. In his memorandum to me requesting that I take this action, the President has stated that he is prepared to utilize the authority granted to him by the Congress under Section 708 (a) and (b) of the Defense Production Act of 1950 as amended."[12]

5. On the basis of these conversations the U.S. and U.K. offered Iran, as part of a "package" proposal for settlement of the Anglo-Iranian oil dispute, an assurance that an international oil company, in which several major U.S. oil companies would participate, would purchase unspecified amounts of Iranian oil. When Mosadeq rejected these proposals in February 1953, the entire question of the formation of an international purchasing organization was dropped until its recent reconsideration.

PART 6

SIGNIFICANCE OF THE IRANO-SOVIET TREATY OF 1921

1. It is probable, if the Soviets invade Iran, that they will attempt to invoke Article 6 of the Irano-Soviet Treaty of Friendship, 1921, as a justification for their action. The pertinent portions of Article 6 are quoted below:

> "If a third party should attempt to carry out a policy of occupation by means of armed intervention in the territory of Persia or to use the territory of Persia as a base for military operation against the USSR, and if thereby danger should threaten the frontiers of the USSR or those of Powers allied to it, and if the Persian Government, after warning on the part of the Government of the USSR, should prove to be itself not strong enough to prevent this danger, the Government of the USSR shall have the right to advance its troops onto Persian territory in order to take necessary military measures in the interests of self-defense."

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[12] Regarding this meeting at the Department of State, see Document 245.

No. 404

601.4188/1-554: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET PRIORITY TEHRAN, January 5, 1954—5 p. m.

1460. 1. Entezam, Foreign Minister, told me today that he had talked last evening with Prime Minister matter *agrément* new British Ambassador. Prime Minister and he were quite pleased with name which Wright had advanced and he expected in the near future suggest that Wright formally request *agrément*. He confident *agrément* would be granted and that Iranian Government would welcome Ambassador whenever latter should decide come Iran.[2]

2. I asked Entezam re attitude Shah this regard. He said Prime Minister had already discussed matter with Shah and had reported Shah not opposed to new British Ambassador arriving Iran in normal course events. He added Prime Minister had intimated to Shah that certain members of Court by approaching foreign diplomats with alleged messages from Shah behind back of government were injuring prestige of Shah and Iran and he hoped Shah would be able to put stop this practice. Shah had blushed but had refrained from making comment. Prime Minister was of opinion that for time at least Shah would refrain from confusing international situation by endeavoring secretly intervene in Iranian foreign affairs.

HENDERSON

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[1] Also sent to London.

[2] Ambassador Henderson informed the Department on Jan. 12 in telegram 1519, that the previous evening Foreign Minister Entezam had told Wright that agreement for the posting of a British Ambassador had been given by the Shah, and that the Ambassador could come at any time. (601.4188/1-1254) The Embassy in London on Jan. 16 in telegram 3031, informed the Department that the new British Ambassador to Iran was Roger B. Stevens, at that time British Ambassador to Sweden. (601.4188/1-1654)

No. 405

788.21/1-754: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET TEHRAN, January 7, 1954—4 p. m.

1481. Although Shah and Prime Minister Zahedi endeavoring maintain appearance no serious differences between them re elections, it clear neither happy.[2] Prime Minister for political and personal reasons has given approval candidacy for Majlis number persons who he must know not of highest type and not politically reliable. For instance he understood be supporting certain members last Majlis whose main qualifications are they put up last ditch fight against Mosadeq or gave shelter to Zahedi while latter fugitive from police. . . .

2. Shah is pulling wires behind scenes for number favorite candidates while avowing he is keeping out of and has no responsibility for elections. Court has been besieged with disappointed politicians who complain about "rigged elections", "Zahedi's poor political judgment", "favoritism shown to corrupt" et cetera, and who frequently receive words sympathy from Shah.

3. Ala, Minister Court, tells me that several weeks ago Alam, Chief of Crown Lands, and he at Shah's request drew up list proposed candidates for Majlis. Shah compared this with Zahedi's list and was pleased at similarity. Tentative combined list was then prepared. Under pressures various kinds, however, combined list has undergone considerable revision. Number high type candidates replaced by some of poor repute. . . . On other hand persons close Prime Minister claim Shah showing weakness in matter candidacy mediocre people as well as extreme nationalist demagogues; that he even goes so far as to intimate no reason why Maki should not run.

4. Ala who has been target during recent years of old time politicians is being subjected to particularly heavy fire by those not included in list. Alam who being increasingly talked of as Ala's successor not in general being blamed.

5. Ala told me evening January 6 he much concerned re Senatorial elections. He feared that government in anxiety to get Majlis which would support it had been paying too little attention to

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[1] Transmitted in two sections; also sent to London and pouched to Tabriz, Meshed, and Isfahan.

[2] Ambassador Henderson reported on Jan. 5 that Radio Tehran had announced that day that Majlis elections would officially begin Jan. 6. He also reported that Zahedi and the Shah had not agreed completely on the candidate list. (Telegram 1462; 788.21/1-554)

Senate. Rumors were current that Tudeh and Iran Party elements were taking advantage this negligence and working hard to get some their most talented rabble-rousers into Upper House. He has warned Zahedi who has promised give this matter more attention.

6. Among critics of elections is Batmanqilich, Chief Staff, ... On January 3 Ala told me Batmanqilich had come to him January with long list complaints. Maintained Zahedi plotting get control armed forces, legislature and civil government apparatus and then overthrow Shah. Zahedi rigging elections so candidates more loyal to him than to Shah would be successful. . . . Zahedi undoubtedly ambitious. I told Ala I confident Zahedi trying strengthen Shah—not undermine him. Zahedi quite aware his government depended entirely on Shah's support, it would be disastrous if intriguers would succeed in stirring up serious dissension between Shah and Zahedi. . . .

7. Charges are also being made by disgruntled politicians that "Americans" have drawn up lists and are dictating elections "just as British used to." Despite our efforts keep aloof from election tangle it accepted as matter course by wide section Iranian public that our influence re selection candidates can be decisive. We are trying constantly convince incredulous Iranian officials seeking our assistance that we have nothing to do with elections. British to less extent than ourselves also being charged with attempting influence elections through their "agents."

8. We should not permit ourselves be unduly disturbed at atmosphere dissatisfaction, carping, intrigue, and dissension which envelops elections. This quite normal. If every candidate should be able man with unblemished record, if every election official should be noted for his honesty, atmosphere would still be polluted with charges and countercharges as long as not enough seats in legislature and jobs in government to accommodate all Iranians—and they numerous—with political ambitions. Nevertheless, no doubt neither Shah nor Zahedi has lived up to earlier declarations of determination to back only able honest men who have confidence their respective communities.

HENDERSON

No. 406

888.2553/1-754: Telegram

The Chargé in the United Kingdom (Butterworth) to the Department of State[1]

TOP SECRET LONDON, January 7, 1954—6 p. m.

2908. Limit distribution. From Hoover.

1. I scheduled arrive New York Saturday, January 9, proceeding Washington Sunday, January 10, in anticipation Department meetings beginning Monday, January 11.

2. In view quickened tempo of developments anticipated London and Tehran (Tehran's 1459, 1476, 1477)[2] believe desirable I return London about January 16 for reasons outlined below.

3. British Chargé Tehran has now completed *pro forma* assessment of Iran situation (Tehran's 1477 January 6) and has been officially advised that (a) AIOC can only return as minority member of a consortium; (b) Iranian Government ready receive technical oil mission from HMG and representatives of consortium; and (c) this mission welcome to examine field producing, refinery, and terminal facilities. Understand HMG will clear this policy at cabinet level next week and will immediately desire to plan final course of action for actual conduct of negotiations in Iran.

4. This implies that anti-trust aspects of consortium should be clarified at earliest possible moment to permit American companies to join in evaluation of physical facilities in Iran and participate in ensuing negotiations with Iranian Government.[3]

5. Although probable that maximum permissible participation AIOC will be determined by Iranian Government at approximately 35 percent, remaining companies will hesitate to agree on own relative percentages until they can (a) obtain clarification of anti-trust situation, (b) evaluate physical facilities and probable costs of rehabilitation, (c) assess economic, political and social conditions in

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[1] Repeated to Tehran.

[2] In telegram 1459, Jan. 5, Ambassador Henderson, reported that the Foreign Minister told him that the previous evening, the Iranian Government had decided it was time to move forward as fast as possible in the direction of an oil settlement, that Zahedi was planning to see the British Chargé some time within the next several days to inform him that it was absolutely impossible for the AIOC to have a monopoly or even a dominating position in producing or marketing Iran's oil, and that negotiations should proceed on the basis of setting up an international consortium. (888.2553/1-554) Telegrams 1476 and 1477, both dated Jan. 6, are not printed. (888.2553/1-654)

[3] For documentation regarding the development of United States policy regarding the applicability of the antitrust laws to international petroleum companies, see vol. I, Part 2, pp. 1259 ff.

country where none other than AIOC have previously had direct contact and (d) obtain general outline of type deal obtainable from Iranian Government. While some of this information could be determined in absence of clarification of anti-trust situation, nevertheless, once wheels have been set in motion companies must be in position to proceed rapidly to final conclusion. Believe, therefore, matter of urgent necessity that every possible effort be made resolve anti-trust matter soonest possible.

6. Parenthetically, US Government has been putting strong and continued pressure on HMG at highest levels over period of some years to solve Iranian problem in interest of our highest mutual security interests. US Government has also voluntarily assumed broad obligations to Zahedi Government in Iran looking towards same end. If US now finds itself unable to proceed further at this time, and negotiations are either stalled or suspended, the implications and consequences might well be of the gravest nature.

7. Department may wish to pass contents this telegram to Attorney General and other who may be interested in anticipation of probable conferences next week in Washington.

8. Comments from Ambassadors Aldrich and Henderson, particularly with reference to paragraph 6 above, would be appreciated.[4]

BUTTERWORTH

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[4] On Jan. 9 Ambassador Henderson agreed with Hoover's opinion that every possible effort should be made to resolve the antitrust matter as soon as possible in order that the American companies would be in a position to discuss participation in an Iranian oil arrangement. Henderson was of the opinion that there could be no solution of the problem without the involvement of the American companies. (Telegram 1504; 888.2553/1-954)

No. 407

788.21/1-854: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET TEHRAN, January 8, 1954—4 p. m.

1491. At my request Prime Minister received me yesterday afternoon. His son Ardeshir interpreted. During conversation I asked Prime Minister how he felt re progress elections and whether cooperation between him and Shah satisfactory.

2. Prime Minister said he encouraged re elections. List candidates approved by Shah and self was complete. He thought most would be elected. He not fully satisfied with slate. Men on it not

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[1] Transmitted in two sections; also sent to London.

uniform high calibre which he would like. He had agreed to some of them because (a) his government so deeply committed politically to certain candidates he could not do otherwise without appearing ungrateful for past assistance, or (b) certain candidates had such strong political positions in their respective communities he could not turn them down without appearing ride rough-shod over local sensibilities.

3. Prime Minister apparently had heard, possibly from Ala, . . . re selection such candidates as Qanatabadi, Mustafa Kashani and Mir Ashrafi (Embtel 1481 Department, 474 London January 7). In any event he gave their names as examples of candidates whom he had felt forced accept despite his lack full confidence in them. He said although they opportunists they had displayed loyalty to him and his government in extremely difficult times when friends were few and had thus far done nothing which would give him grounds for excluding them from list. He did not think they would be in position do much harm even if they should turn against him. He would soon be politically bankrupt if he should turn, without specific grounds, against those to whom he was deeply indebted.

4. He anxious that impression should not prevail in country that Government was high-handedly forcing into Majlis candidates favored by it regardless feelings local communities. In deciding on which candidates to support Government had therefore been compelled take into consideration political leadership, past record in Majlis, ability to get votes, et cetera, as well as integrity and honesty. Result had been that about 40 of 136 candidates while friendly disposed to Government could not be fully depended on in times of stress. About the same number could be depended upon to back Government wholeheartedly through thick and thin. There were perhaps half dozen who might turn out to be demagogues with whom Government would have difficulties. The remainder he thought would in general support Government although they could not be regarded as hundred percenters. With such Majlis, he convinced Government could effect passage oil settlement acceptable to Iranian public and other important bills. Majlis would not however be rubber stamp affair. He thought over long term it better that it should not be. He was introducing into Majlis number young progressive intellectuals who understood what he was trying to do and who he hoped would develop into future political leaders.

5. I asked Prime Minister if Government was preparing bills for submission to Parliament. He replied in affirmative, said number important bills embodying reforms in various fields were being drawn up. They were sufficient in number to keep Majlis fully occupied for at least three months at end of which additional bills

would be ready. He thought that if Majlis could be put hard to work its morale would be higher and people would feel something was being accomplished.

6. I asked Prime Minister re Senate. He said that voting for Senate would probably begin few days before Majlis. In fact voting in Tehran should take place by middle January. Senate elections presented less difficult problem than Majlis because in order be Senator politician must have certain qualifications and background which no Tudeh members and few extreme Nationalists possessed. Slate had been drawn and approved by Shah and himself of Senators to be elected and to be appointed by Shah. He thought that new Senators would be of higher quality and have more prestige than their predecessors.

7. In answer my question Prime Minister maintained that in spite of speed with which preparations for elections were going forward matter was being handled with care and foresight. He anticipated Government would have overwhelming victory without being compelled to resort to undue pressures.

8. Shah and he had had certain differences re selection candidates and re manner in which elections were to be run. These differences had not been basic, however, and they had been eliminated by process of give and take. At present moment Shah was showing fairly satisfactory degree cooperation. Difficulty was that he could never be sure that political opportunist would not succeed in getting ear of Shah and persuading him to make some statement or take some action which might upset political equilibrium.

9. I inclined believe Prime Minister somewhat over optimistic re calibre candidates and degree their reliability. Preliminary examination by Embassy of available lists candidates would indicate distressingly few of national repute and high standing. On other hand it would appear that more important politicians displaying interest in being members Senate than Majlis. Senate may therefore in new quality its membership play greater role in future than in past.

HENDERSON

No. 408

Eisenhower Library, Eisenhower papers, Whitman file

Memorandum of Discussion at the 180th Meeting of the National Security Council, Washington, January 14, 1954[1]

TOP SECRET EYES ONLY

Present at the 180th meeting of the Council were the President of the United States, presiding; the Vice President of the United States; the Secretary of State; the Acting Secretary of Defense; the Acting Director, Foreign Operations Administration; the Director, Office of Defense Mobilization. Also present were the Secretary of the Treasury; the Acting Secretary of the Interior (for Item 1); the Secretary of Commerce (for Item 1); the Director, Bureau of the Budget; the Chairman, Atomic Energy Commission (for Item 3); the Federal Civil Defense Administrator (for Item 3); the Under Secretary of State; the Service Secretaries and the Joint Chiefs of Staff (for Item 3); Col. Bonesteel, Mr. Lehrer and Col. Powell, Department of Defense (for Item 3); the Director of Central Intelligence; the Assistant to the President; Robert Cutler and C. D. Jackson, Special Assistants to the President; Richard L. Hall, NSC Special Staff; the Executive Secretary, NSC; and the Deputy Executive Secretary, NSC.

Following is a summary of the discussion at the meeting and the chief points taken.

[Here follows discussion of items 1-7, significant world developments affecting United States security, a national petroleum program, continental defense, United States objectives and courses of action with respect to Southeast Asia, United States civil administration in the Ryukyu Islands, United States objectives and policies with respect to Austria, and the functions of the armed forces and the Joint Chiefs of Staff.]

8. United States Policy Toward Iran (NSC 5402; NSC Action No. 998-d)[2]

Secretary Dulles said that he had one important item to raise for Council consideration in connection with Iran. Mr. Herbert Hoover, Jr., had just reported that the British at long last seemed to be ready to go along with us, and the Cabinet had made a decision to accept a minority position for British interests in any oil consortium created in order to market Iranian oil. This British decision now puts the problem back in our laps, and our first task is to include American oil companies to accede to the plan for a consortium. Before they will agree to this plan, the American companies will require an opinion from the Attorney General as to the legality of their action. In turn, the Attorney General, with whom, said Secretary Dulles, he had discussed this point at breakfast this morning, would want a supporting decision by the National Security Council. Time was of the essence, and Secretary Dulles proceeded to read language to the Council which he believed constituted a decision by the National Security Council which would suffice for the purposes of the Attorney General.

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[1] Drafted by Gleason on Jan. 15.

[2] For text of NSC 5402, see Document 403. For text of NSC Action No. 998-d, see footnote 8, Document 401.

The President said that the Attorney General had also discussed this matter with him, and had made clear that he had no intention of permitting American oil companies who might join an international consortium to extend their position to the point of fixing the sale price of petroleum products.

Mr. Cutler then said that he would discuss with the Attorney General, as soon as he returned to the city, the language proposed by the Secretary of State, and would draft an appropriate action by the National Security Council in the light of this discussion.

The National Security Council:[3]

Agreed to advise the Attorney General that the security interests of the United States require that United States petroleum companies participate in an international consortium to contract with the Government of Iran, within the area of the former A.I.O.C. concession, for the production, refining, and acquisition of petroleum and petroleum products; in order to permit the reactivation of the said petroleum industry and to provide therefrom to the friendly Government of Iran substantial revenues on terms which will protect the interests of the western world in the petroleum resources of the Middle East.

Note: Noting that this action did not cover the sale of petroleum and petroleum products by the international consortium, the President subsequently approved the transmittal of this action to the Attorney General.

S. Everett Gleason

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[3] The paragraph and note that follow constitute NSC Action No. 1015. (S/S–NSC (Miscellaneous) files, lot 66 D 95, "Record of Actions by the NSC, 1954") Cutler sent the Attorney General a memorandum later on Jan. 14, informing him that the NSC took this action. (888.2553/1–1453)

No. 409

788.00/1-1854: Telegram

The Ambassador in Iran (Henderson) to the Department of State

TOP SECRET TEHRAN, January 18, 1954—6 p. m.

1581. Limited distribution. We also have become more and more concerned re election developments (Deptel 1514).[1] We have been hoping that situation would right itself as sometimes happens in Iran without necessity action by ourselves. It might be difficult extricate ourselves from insidious political morass if we once begin interfere in Iranian internal affairs, particularly in such intricate and delicate matter as elections. Nevertheless since it has become clear complete aloofness on our part might result not only in another impotent Majlis but in disintegration of present government, we have already made certain moves despite risks involved and intend go even further if we find way open.

2. Through appropriate US channels I sent friendly message Prime Minister yesterday stressing our concern way things going. These channels in discussing details found him cooperative. I also presented problem quite frankly yesterday morning to Ala who undertaking work from court end to eliminate some more unfortunate features. We feel somewhat encouraged at Prime Minister's cooperative attitude but worried at disorganized and even haphazard way in which elections are apparently being run. . . .

HENDERSON

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[1] In telegram 1514, Jan. 14, the Department informed Henderson of its concern with the arrangements for the forthcoming elections in Iran, especially the particularly poor caliber of candidates supported by Zahedi and the Shah. (788.00/1-1454)

No. 410

888.2553/1-1954

Memorandum of Conversation, by the Director of the Office of Greek, Turkish, and Iranian Affairs (Richards)

SECRET WASHINGTON, January 19, 1954.

Subject: Iranian Oil Negotiations

Participants: Mr. Harold Beeley, Counselor, British Embassy
Mr. Herbert Hoover, Jr., Consultant to the Secretary
Mr. Arthur L. Richards, GTI

Mr. Beeley called at his request this morning and stated that the British Embassy had received instructions along the following lines:

(1) The British accepted our suggested amendment to the proposed text to be given to the Iranian Government by British Chargé Wright.[1] The third sentence of the message will therefore be altered to read as follows: "The AIOC, with the approval of Her Majesty's Government, are therefore resuming their talks with other companies in order to see whether it is feasible to form such a group, in which AIOC would have an appropriate share. This group would be in a position to negotiate a comprehensive settlement with the Persian Government."

(2) As regards our suggestion that, in conversation with the Persians, Mr. Wright state that the companies to participate in the proposed consortium should be *principally* those already holding Middle East oil interests, Mr. Beeley stated that HMG could not accept the use of the word "principally". The British Government felt that the participation must be restricted to those companies already operating in the Middle East. To open the door to companies not now engaged in producing and marketing Middle East oil, including American independents, "would be to admit oil companies of numerous nationalities, including British independents, who could not contribute towards restoring Persian oil to its traditional markets."

(3) Mr. Beeley stated that the British will take note of our views about the proportion of participation by AIOC. He stated that the British Government would not accept without further exploration the idea that total British participation should not be over 50 per cent. In fact, the British expected AIOC to participate to the extent of 50 per cent. Therefore participation by another British company would increase the total British participation to over 50 per cent. He stated that 50 per cent participation by AIOC "was fundamental."

(4) Mr. Beeley stated that HMG was grateful for our suggestions regarding method of negotiation and would give our suggestions due consideration.

(5) While appreciative of the reasons for the suggestion that the next meeting be held in Montreal, HMG considered that "for practical reasons" it would be necessary to continue conversations in London.

(6) Mr. Beeley stated that the British Government is ready to proceed with (a) the delivery of the proposed message to the Irani-

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[1] Telegram 1522 to Tehran, Jan. 15, transmitted an earlier version of the proposed British communication to the Iranian Government. (888.3932/1-1554)

an Government and (b) to authorize AIOC to extend invitations to the companies to resume talks. Action on both the foregoing was being held up pending a United States decision on the anti-trust aspects of the problem. HMG believes any "delay most inadvisable from a psychological point of view" and would very much like to be able to authorize Mr. Wright to deliver the proposed message on Thursday, January 21, if at all possible. Failing this, it is sincerely hoped by HMG that the United States position would be sufficiently firm to permit the delivery of the message by Saturday, January 23.

No. 411

888.2553/1-2054

The Attorney General (Brownell) to the National Security Council[1]

TOP SECRET [WASHINGTON,] January 20, 1954.

GENTLEMEN: You have asked my opinion as to the legality of an international consortium which might be arranged along the lines stated in paragraphs I to IV of the "Proposed Iranian Consortium Plan" submitted to me (copy of which is attached), including the legality of participation therein by any or all of the five mentioned or other American oil companies.

Upon the assumption that the proposed consortium will be organized as set out in the memorandum submitted to me, and will be made up of participating companies in accordance with the specified composition of the group, and with particular emphasis upon the provisions respecting the freedom of each member of the group to sell the oil and products acquired by it freely, both as to price and purchaser, it is my opinion that such joint contract or joint company, in view of the facts and circumstances which now characterize the production and refining of Iranian oil and the determination by the National Security Council that the security interests of the United States require that United States oil companies be invited to participate in an international consortium to contract with the Government of Iran, for the production, refining and acquisition of petroleum and petroleum products from within the area of the former AIOC concession, would not in itself constitute a violation of the antitrust laws, nor create a violation of antitrust law not already existing, subject to the limitations stated below.

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[1] Sent to the President the following day; for text, see *The International Petroleum Cartel*, p. 75.

This opinion of non-violation is limited to the actions described in said memorandum and does not extend to any other act whatever, such as, but not limited to—

(a) Any other agreement or understanding among the participating parties, or any of them, or between any of the participating parties and non-participating persons,

(b) Marketing, distribution, further manufacture, or transportation of any petroleum or petroleum products, and any plan, program, agreement, or understanding, whether past, present or future, relating thereto.

This opinion of non-violation is given only subject to the express reservation of all rights of the United States, unlimited in any way by this opinion, to continue to prosecute the action against Standard Oil Company of New Jersey and others, pending in the United States District Court for the Southern District of New York, Civil No. 86-27, in accordance with the Federal Rules of Civil Procedure, and to prosecute the charges of such complaint with respect to the actions of the defendants therein and any other persons who may be added as parties defendant, as to any petroleum and petroleum products, including any and all actions dealing with petroleum and petroleum products acquired as a result of the consortium, other than any action which the preceding paragraphs of the opinion state "would not, in itself constitute a violation of the antitrust laws, nor create violation of antitrust law not already existing."

Sincerely yours,[2]

[Attachment]

CONFIDENTIAL

"PROPOSED IRANIAN CONSORTIUM PLAN"

I. The British Government (herein referred to as H.M.G.) and the Anglo-Iranian Oil Company (herein referred to as AIOC) on the one hand and the Government of Iran on the other have been disputing the validity of the Iranian Government's action in purporting (a) to cancel the oil concession agreement between the Government and AIOC; and (b) to nationalize certain properties of AIOC. The United States has long recognized that a settlement of that dispute which will provide for the reopening of the Iranian oil industry on a sound and permanent basis is vital to its national security. For this reason the United States has sought such a solution since the inception of the dispute early in 1951. (See NSC Action 454, March

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[2] The source text is unsigned.

21, 1951; 473 May 16, 1951; 500 June 27, 1951; 680 November 19, 1952; 735 March 11, 1953; 875 August 6, 1953; 891 August 27, 1953; 947 October 29, 1953; 998 December 30, 1953; 1015 January 14, 1954.)[3]

II. Many, including American oil companies engaged in business at home or abroad, have felt that the best solution of the problem would be for AIOC to return to Iran alone but H.M.G., AIOC and the United States now agree that the Iranian attitude makes such a solution impossible. At the same time, H.M.G., AIOC and the United States also agree that it might be possible to organize a group of oil companies which, in turn, might be able to negotiate a sound and permanent settlement. The basic principles of any such settlement would:

(a) Permit a group of companies to negotiate a commercial contract with Iran;
(b) Provide compensation to AIOC for such interest it might not retain; and
(c) Not adversely affect existing oil production concessions from Governments of oil producing foreign countries.

III. Consummation of a settlement within the framework of these basic principles will be extremely difficult and the final terms cannot be foreseen. It is believed, however, that the following points will be handled, as indicated:

1. *Composition of the group:* The group will consist of AIOC and such other oil companies as are approved by H.M.G. and the Government of Iran as being qualified to contribute to a solution by providing capital, and by agreeing to take Iranian crude oil and refined products and otherwise, with the provisos:

(a) that approximately five American companies will be approved to participate, and actually do participate, in the joint contract (or organize a joint company), and
(b) that the powers of H.M.G. and Iran to give or withhold approval will not be exercised to establish in advance of approval, or require as a condition of approval, with any American company any conditions, agreements, undertakings or commitments which make impossible compliance, in whole or part, with the provision of paragraph III 2(c) hereinbelow, or which affect, or in any manner relate to, petroleum operations (either with respect to Iranian petroleum or petroleum products, or petroleum or petroleum products of any other origin) outside the AIOC concession area in Iran by such approved companies, or their affiliates. The relative participations by nationalities or companies cannot be foreseen at this time.

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[3] Some of these NSC actions are printed in this compilation. The record copies of all these NSC actions are in S/S-NSC (Miscellaneous) files, lot 66 D 95.

2. *Form of organizations:*

(a) The group would seek contractual arrangements with Iran within the framework of the basic principles and such arrangements might take the form of undivided interests in the contract or the organization of a new company to be the contracting party with Iran.

(b) In any case, the group would determine the total production and each member would take its proportion (based on capital contributions) of the Iranian crude oil and products.

(c) By the provisions of the consortium, each member of the group would be free to sell oil and products, at prices individually determined by it, to any one, in any market, including sale to any party.

(d) Provision would be made for adjustment of over-and-underliftings in advance of any operations under the joint contract or joint company by the group members.

3. *Arrangements with Iran:* The contractual arrangements would give the group (however organized) effective management of the oil operations in and exports from the AIOC concession area in Iran. The group would agree to develop the property in accordance with sound commercial practices. This probably would mean, in practice, that the group would expand or contract production, transportation and refining in Iran as economic conditions indicated. All or part of the revenue to Iran would be derived by income taxation.

IV. While, as noted, the question of participations in the group has yet to be negotiated it is likely that some or all of the five American oil companies which are defendants in the civil suit commenced by the United States in April, 1953 will be invited to participate. It is also likely that any American oil company (including but not limited to the five mentioned companies) which did participate would find it necessary to reduce temporarily (on an individual basis, without agreement, understanding, or combination with any other company) its present takings of crude oil and refined products from other sources in order to be able to absorb such Iranian oil as it might take.

V. The Secretary of State requests the National Security Council to obtain an opinion from the Attorney General as to the legality of any arrangements which might be made along the foregoing lines, including the legality of participation therein by any or all of the five mentioned American oil companies.

No. 412

GTI files, lot 57 D 155, "NSC"

Memorandum by the Consultant to the Secretary of State (Hoover) to the Secretary of State

TOP SECRET [WASHINGTON,] January 21, 1954.

Subject: National Security Council Action on Iranian Oil Settlement

1. The memoranda and documents presented herewith[1] are designed to permit United States petroleum companies to participate in the settlement of the Iranian oil controversy without violation of the antitrust laws. The proposed actions constitute a necessary implementation of the action adopted by the National Security Council on January 14.

2. The first memorandum, "Proposed Iranian Consortium Plan", outlines the broad principles which should permit the companies to (a) form an international petroleum organization, (b) negotiate a contract with the Government of Iran, and (c) operate the producing and refining facilities in that country. It is my understanding that the Attorney General is prepared to present an opinion, with certain reservations, that the plan as set forth is not in violation of the antitrust laws.

3. It is further proposed that the National Security Council should authorize and direct the Secretary of State to inform the appropriate United States petroleum companies of:

(a) The sense of the National Security Council action of January 14,
(b) The contents of the proposed Iranian consortium plan,
(c) The opinion of the Attorney General; and further authorize and direct the Secretary of State to inform such other persons and governments as are appropriate.

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[1] References are to Attorney General Brownell's letter to the NSC, Jan. 20, and its attachment (*supra*), and Cutler's memorandum of Jan. 14 to Brownell informing him of NSC Action No. 1015 (see footnote 3, Document 408).

No. 413

GTI files, lot 57 D 155, "NSC"

Memorandum by the Consultant to the Secretary of State (Hoover) to the Secretary of State

TOP SECRET [WASHINGTON,] January 21, 1954.

Subject: Iranian Oil Situation

1. The Iranian oil situation must be considered in its world-wide setting, rather than as an isolated problem.

2. The Western and the Eastern Hemispheres are each essentially self-supporting and self-contained, at the present time, with respect to their petroleum requirements.

3. In the Eastern Hemisphere, the American companies already have a substantial surplus of production, and desire to participate in the Iranian situation only to facilitate the objectives of national security as set forth in the NSC action of January 14, 1954.

4. In the Western Hemisphere there is also a surplus of petroleum, and there is some fear that existing imports may threaten the stability of the industry. Still further imports from the Middle East at this time, therefore, are not in the interest of maintaining a strong defense position in the Western Hemisphere.

5. In future years the importation of Middle East crude to the US may be necessary, and sources of supply in that area for additional American companies are desirable. This may have to be handled separately from the Iranian problem due to the complexities already existing in these negotiations.

6. It is therefore desirable, for the present at least, that Iranian oil should flow primarily into its traditional Eastern Hemisphere markets, and should not add to the present difficulties in the Western Hemisphere. Companies participating in an Iranian settlement should, if possible, be in a position to:

(a) Distribute Iranian oil in the Eastern Hemisphere, and

(b) Proportionately reduce production from other areas in the Middle East. The five United States companies now named in the Cartel antitrust case are the only ones from this country who meet such a criteria, and it is for these reasons that the legal difficulties have had to be resolved.

7. Two major matters of negotiation still remain to be worked out, namely:

(a) The relative participation of the companies making up the consortium. This involves difficult problems of prestige between the British and Iranian interests, and

(b) A contract between the consortium and the Iranian Government. This must not only be a sound agreement in itself, but must also set no precedents which would have injurious repercussions in other producing countries in either Hemisphere.

It is expected that the negotiations will now shortly get under way.

No. 414

Eisenhower Library, Eisenhower papers, Whitman file

Memorandum of Discussion at the 181st Meeting of the National Security Council, Washington, January 21, 1954[1]

TOP SECRET EYES ONLY

Present at the 181st Meeting of the National Security Council were the President of the United States, presiding; the Secretary of State; the Acting Secretary of Defense; the Director, Foreign Operations Administration; the Director, Office of Defense Mobilization. The Vice President did not attend the meeting because of his absence from the city. Also present were the Secretary of the Treasury; the Attorney General (for Item 6); Mr. Morrison for the Director, Bureau of the Budget; the U.S. Representative to the United Nations; the Under Secretary of State; the Acting Secretary of the Army and Adm. Duncan for the Secretary of the Navy (for Item 4); the Chairman, Joint Chiefs of Staff; Gen. Bolte for the Chief of Staff, U.S. Army; the Chief of Staff, U.S. Air Force; and Commandant, U.S. Marine Corps (for Item 4); Judge Barnes, Assistant Attorney General, and Mr. Herbert Hoover, Jr., Department of State (for Item 6); the Director of Central Intelligence; the Assistant to the President; Robert Cutler and C. D. Jackson, Special Assistants to the President; the Deputy Assistant to the President; the Executive Secretary, NSC; and the Deputy Executive Secretary, NSC.

There follows a summary of the discussion at the meeting and the main points taken.

[Here follows discussion of items 1-5, the meeting of the four Foreign Ministers in Berlin, United States policy on Berlin, significant world developments affecting United States security, United States objectives and courses of action with respect to Southeast Asia, and United States objectives and courses of action with respect to Indonesia.]

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[1] Drafted by Gleason on Jan. 22.

6. United States Policy Toward Iran (NSC 5402; NSC Actions Nos. 1015 and 766–a)[2]

Mr. Cutler summarized the Council's action of the previous week with respect to the desirability from a national security point of view that United States oil companies participate in an international consortium to purchase Iranian oil. He then indicated that at the present meeting the Under Secretary of State would present a proposed Iranian consortium plan, and the Attorney General would present an opinion that the participation of U.S. oil companies in the aforementioned plan would not be in violation of the anti-trust laws. Mr. Cutler then called on Mr. Hoover to describe the proposed Iranian consortium plan.

Mr. Hoover read two memoranda dated January 21, the first entitled "National Security Council Action on the Iranian Oil Settlement" and the second "The Iranian Oil Situation"[3] (copies filed in the minutes of the 181st NSC meeting). Thereafter, Mr. Hoover outlined the most significant points in the proposed Iranian consortium plan (copy filed in the minutes of the 181st NSC meeting).[4]

At the conclusion of Mr. Hoover's presentation, Mr. Cutler called on Admiral Radford for his requested statement on the importance to national defense of the above plan from the viewpoint of the Department of Defense.[5]

Admiral Radford said that it was almost impossible to overestimate the importance of an Iranian oil settlement from the point of view of national security. The Middle East was the one area in the world where we have made no progress in creating reasonable defense arrangements against Soviet imperialism. It was therefore all the more important to keep Iran on the side of the free world. The key to doing so was an oil settlement. We must get the British to go along with us in our plan to achieve this settlement.

At the conclusion of Admiral Radford's statement, Mr. Cutler called on the Attorney General for his opinion as to the legality of the proposed Iranian consortium plan.[6]

The Attorney General stated that this opinion, which had already been sent to the President,[7] had been prepared by Judge Barnes and that it gave full clearance to the consortium plan as regards the legality of purchases of Iranian oil. This clearance did not extend, however, to sales of Iranian oil. The Attorney General also noted that the opinion in question relied very heavily on the decision at last week's Council meeting, which Mr. Cutler had mentioned at the outset of the discussion.

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[2] For text of NSC 5402, see Document 403. For text of NSC Action No. 1015, see footnote 3, Document 408. For text of NSC Action No. 766–a, see footnote 2, Document 358.

[3] Document 412 and *supra*.

[4] Reference is to the attachment to Document 411.

[5] Not found in Department of State files.

[6] Reference is to Document 411

[7] Reference is to Attorney General Brownell's letter to the President, Jan. 21, see footnote 1, Document 411.

The Attorney General then referred to the pending litigation against the American oil companies, and noted that the so-called cartel suit would continue to be prosecuted by the Department of Justice.

Mr. Cutler asked Secretary Smith what form of Council action was required in the circumstances and in the light of the reports which had been presented to the Council by Mr. Hoover and by the Attorney General.

Secretary Smith replied that all that was necessary would be that the record show that the Council had noted the proposed Iranian consortium plan together with the Attorney General's opinion as to its legality. But the Attorney General interrupted to say that he wished to make a statement to the Council with regard to the civil suit against the oil companies, which would, of course, still stand.

The Attorney General was critical of the behavior of the oil companies, in particular because they had thus far refused to submit to the Department of Justice documents which were essential to the case. Although two Judges had found that the companies were under obligation to submit these documents, the judgment had been appealed and the companies were now engaged in a delaying action. Accordingly, the Attorney General suggested that participation of the American oil companies in the proposed Iranian consortium plan should be made contingent upon their willingness to turn over these documents.

Secretary Smith said that the first question in his mind was whether the companies would be willing to participate in the new plan if surrender of these documents were made a condition. Secretary Smith was reasonably sure that the companies could expect no immediate profit from the new plan, and that their participation in it would be motivated, at the outset at least, only by concern for the national security.

Secretary Humphrey added that he felt it undesirable for the National Security Council to let itself become involved in this aspect of the oil problem.

The President expressed strong agreement with the views of Secretaries Smith and Humphrey, and insisted that the problems of the cartel suit and the new consortium be kept wholly separate and distinct. The companies were entering into this plan out of concern for the security of the United States, and the President did not think it advisable to place on the companies the condition of surrendering the documents.

The Attorney General said that he accepted the President's views readily, but he did wish to point out that considerations of national security would require that in due course the Government get hold of the documents in question if we were ever to achieve a final settlement of the problem occasioned by the impact of the anti-trust laws on American companies operating in foreign countries exclusively. The Attorney General reminded the Council that it had directed him to investigate this problem, and that American companies could not be expected to undertake foreign operations deemed by the Government to be in the interests of the national security if such operations, though exclusively abroad, involved them in violation of the anti-trust laws.

The Attorney General then went into the question of publicity regarding the new plan. Secretary Smith thought that no publicity should be given the new plan until final arrangements for its implementation had been completed. The President and Mr. Hoover agreed with Secretary Smith, the President adding that determination of the appropriate time should rest with the Secretary of State.

The President also expressed his desire that the Council record indicate that there was no relation whatsoever between the consortium plan and the cartel suit. While the heads of many of the oil companies were his personal friends, he did not propose to allow the American people to be gouged by the price-fixing practices of the oil cartel.

The Attorney General said that he believed it to be prudent to take this matter up immediately with the majority and minority leaders in Congress, so that a clear understanding of the purposes of the Administration could be offered at once. The President expressed agreement with this suggestion.

The National Security Council:[8]

a. Noted a memorandum entitled "A Proposed Iranian Consortium Plan" by the Department of State, as presented by Mr. Herbert Hoover, Jr.

b. Noted a statement emphasizing the importance to national defense of the above Plan from the viewpoint of the Department of Defense, as presented by the Chairman, Joint Chiefs of Staff.

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[8] Paragraphs a–e and the Note constitute NSC Action No. 1021. (S/S–NSC (Miscellaneous) files, lot 66 D 95, "Record of Actions by the NSC, 1954")

NSC Executive Secretary Lay formally transmitted the responsibility for action in paragraph d to the Secretary of State for appropriate implementation on Jan. 25. (S/P–NSC files, lot 61 D 167, "Iran (NSC 175 and 5402)")

c. Noted an opinion requested of the Attorney General as to the legality of the above Plan.

d. Noted that the President, upon the advice of the National Security Council contained in NSC Action No. 1015, authorizes and directs the Secretary of State, at an appropriate time, to inform:

> (1) The appropriate American petroleum companies (a) of the advice of the National Security Council contained in NSC Action No. 1015; (b) of the contents of the proposed Iranian Consortium Plan; and (c) of the opinion of the Attorney General regarding this Plan.
>
> (2) Such other persons, including appropriate members of Congress, and foreign governments as are appropriate, of this Plan.

e. Noted that the pending civil action in the so-called oil cartel case instituted pursuant to NSC Action No. 766-a is an entirely separate matter from the proposed Iranian Consortium Plan, and will continue to be prosecuted by the Department of Justice.

Note: The action in d above subsequently transmitted to the Secretary of State for appropriate implementation.

[Here follows discussion of item 7, United States policy towards Finland.]

S. EVERETT GLEASON

No. 415

888.2553/1-2654: Telegram

The Ambassador in the United Kingdom (Aldrich) to the Department of State[1]

SECRET PRIORITY LONDON, January 26, 1954—1 p. m.

3171. Limit distribution. From Hoover.[2] Held meeting at Foreign Office 25th at which Dixon and Fry, Foreign Office, Maud and Butler, Minister Fuel and Power, and Playfair, Treasury, represented HMG. Butterworth and Embassy officers attended.[3] No company representatives present. I suggested oil problem be considered in following three phases:

1. Exploratory assessment situation and clearing away preliminary obstacles;
2. Setting up consortium;
3. Negotiations between consortium and Iran.

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[1] Repeated to Tehran.

[2] Hoover had returned to London on Jan. 24.

[3] The record copy of the minutes of this meeting, is in a folder entitled "Minutes of Meetings at Foreign Office on Iranian Oil", in file 888.2553/4-554.

British agree with us phase 1 substantially complete. About to enter phase 2. Phase 3 should not be entered until second phase substantially agreed among companies.

AIOC preparing invitations which will initiate phase 2. Expect talk with AIOC today and that invitations will go out promptly.

Principal problems in connections second phase are: (a) legal and tax aspects influencing form of arrangement, (b) sterling problems for American companies, (c) engineering and technical problems and (d) relative percentages of participation. Last point complicated somewhat by desire Americans to have lowest shares consistent with sound solution. In view hesitation US companies argue this point and necessity determining participation solely on basis sound solution, many aspects of which beyond their capacity assess, I suggested this matter be settled upon governmental level. British promised consider.

We agreed phase 3 would have three elements: (a) assessment of physical facilities Iran by technical mission under sponsorship HMG (though possibility some work in this connection will be needed permit decisions in phase 2); (b) a brief assessment of economic, political and social conditions in Iran by partners of AIOC which have had no experience there and finally (c) negotiations with Iran.

We touched on compensation question briefly at which point I suggested it would be well to avoid punitive element in compensation which in American view seemed psychologically bad. I feared, however, some AIOC desire in this direction. British seemed inclined to agree though did not commit selves.

On matter Iran need for interim aid British agree undesirable have appearance of putting economic pressure on Iranians. They have no desire withhold assistance as had been true during much of Mosadeq period. However resources very limited. No Iranian funds frozen here and no ability HMG make loan without specific parliamentary approval which reluctant to ask. Had hoped US would put up cash and HMG would continue rails, locomotives et cetera, aid.

We suggested and British agreed British and ourselves seek identify main points of principle on which our companies or governments will wish to stand in order that respective governments can bear equal brunt of problem presentation such points to Iranian Government. For example, need for effective management was one such element.

We raised question of possible inclusion independents in consortium noting matter raised by Nemazee and Nakasian. British still very doubtful this point desiring keep group to those major companies now ME. I warned British also there is probably major problem hidden behind Iran apparent willingness some quarters have AIOC major share in consortium since Iranians probably considering off-taking share only and not cognizant implied proportionate share in effective technical management. In view evident misunderstanding on this point, I emphasized need for clarification.

British agreed with us as to need to consider what we could tell Iranians about forthcoming London talks (paragraphs 1 and 2 Tehran's 1623).[4]

ALDRICH

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[4] In telegram 1623, Jan. 25, Ambassador Henderson reported that the previous day he had a conversation with the Foreign Minister, who noted that the AIOC was inviting a number of oil companies to a conference in London to make plans for the organization of a consortium to negotiate a comprehensive settlement with the Iranian Government. He hoped that the London meeting would not result in the formulation of plans and their presentation to Iran as an ultimatum. He also hoped the Iranian Government could be kept informed at least of those aspects of the plans in which it had a legitimate interest. Henderson suggested that the Foreign Minister discuss this matter with the British Chargé, Wright, who would undoubtedly convey the Iranian views to the British Government. The Foreign Minister said he would have a talk with Wright. (888.2553/1-2554)

No. 416

888.2553/1-2854: Telegram

The Ambassador in the United Kingdom (Aldrich) to the Department of State[1]

SECRET PRIORITY LONDON, January 28, 1954—7 p. m.

3230. Limit distribution. Noforn. From Hoover.

1. At conference with Fraser and AIOC officials January 26, invitations were transmitted to five US companies, Shell and CFP for meetings to begin February 1 in London.[2] Anticipated discussions limited to working levels as top officials not attending. Purposes outlined follow:

a. Legal and tax committee to resume consideration nature of corporate vehicle and its domicile to satisfy legal and taxation problems of approximately 8 companies of 4 different nationalities. This plus problems inherent operations and sales in sterling area present complex difficulties which must be resolved prior to any solution. Results are of only incidental interest to Iranian Government but important to industry.

b. Technical committee to evaluate data in AIOC files on probable recoverable reserves together with daily production potentials and expected life each oil field. This also time consuming but necessary for each new partner assess for themselves as final figures of vital significance in later inter-company negotiations. This committee also expected organize consortium survey team for preliminary examination facilities Abadan and oil fields when practical.

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[1] Also sent to Tehran.

[2] A copy of the invitation is in GTI files, lot 57 D 155, "Top Secret Mr. Hoover—Correspondence—January 1, 1954".

2. In absence any direct statement by Iranian Government to HMG re maximum allowable participation AIOC, companies unable negotiate basic problem of relative participations. This precludes discussion re more obvious problems such as general management policies and personnel, and also other less obvious but equally vital re relative capital contributions and resultant offtakes.

3. AIOC perhaps understandably hoping for dominant share for prestige, financial and sentimental reasons; and management personnel laying plans and expecting return Iran resume essentially previous position in fact, even if not in appearance. HMG and AIOC assert Iranians have tacitly agreed give AIOC dominant role because (a) Iranians have not so far defined AIOC participation at less than 50 percent and (b) did not protest Wright's earlier statement (December 29) that "it would be necessary for AIOC to play a major part". While on one hand AIOC and HMG take official position AIOC must have at least 50 percent, on other, AIOC still in effect refuses negotiate and says all discussions re relative participation must be "hypothetical."

4. From commercial standpoint, US companies desire minimum participation for selves and interest only as matter public service and attainment sound solution. They do not feel in position contest AIOC desire for dominant role although privately express opinion AIOC attitude unrealistic. Top US representatives not attending meeting February 1 in view unwillingness AIOC negotiate on basic issues.

5. Shell officials not consulted at any stage by HMG, who appear to be backing AIOC exclusively. This notwithstanding Shell probably could use crude and products to better advantage than any other member; and whose large participation would be in best interest of HMG sterling position. Shell officials also believe AIOC position unrealistic and see no constructive progress until respective participations can be negotiated.

6. Fraser tentatively suggests small top level consortium group go Tehran middle February determine desires Iranian Government relative participations and other points, then return London continue inter-company negotiations. While this might allay Iranian suspicions that consortium "prepared ultimatum" (Tehran's 1623),[3]

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[3] See footnote 4, *supra*.

at same time would give company officials, other than AIOC, first opportunity make direct assessment political, economic and social conditions Iran. Industry and especially AIOC understandably hesitant accept evaluation by respective government officials re participation in view extreme importance and necessity substantiate to director and stockholders.

7. At Foreign Office meeting scheduled January 29, we propose point out present progress effectively stalled by following: (a) HMG and AIOC position that Iranian Government approves dominant role for AIOC, which approval we believe to be misunderstanding; (b) assessment by British Chargé Tehran, promised for early January, apparently still incomplete; (c) AIOC not willing negotiate relative participations except on admittedly "hypothetical" basis they receive minimum 50 percent; and (d) limitation of British share to AIOC effectively excludes Shell, who appears meet all criteria for admittance and are potentially large off-taker.

8. Further propose point out, in effort expedite solution, US adopted virtually heroic measures to:

(a) Stabilize a friendly government in Iran,
(b) Advance $45 million grant in aid,
(c) Support resumption diplomatic relations between HMG and Iran,
(d) Resolve anti-trust situation and obtain cooperation US petroleum industry.

Additionally, US apparently being expected give still further monetary aid to Iran.

9. We feel that constructive action by HMG is indicated since status of negotiations is still approximately where it was when diplomatic relations were resumed 45 days ago.

10. Comments or instructions from Department and Ambassador Henderson appreciated by 3 p. m. local time January 29 if possible.[4]

ALDRICH

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[4] The Department responded on Jan. 29 that it fully supported the line Hoover was proposing to take with the British as outlined in paragraphs 7, 8, and 9 of telegram 3230 from London. The Department informed Hoover that he could report, in the meeting scheduled for Jan. 29, that the highest levels of the U.S. Government were deeply interested in the development of the present favorable situation and that the United States had risked much to help create the present opportunities and would be disturbed if this situation were not exploited to the maximum because of unreasonable or inflexible attitudes on the part of the AIOC regarding their own participation in future Iranian oil operations. (Telegram 3906; 888.2553/1-2854) In telegram 3254 from London, Jan. 29, Hoover reported on that day's meeting with the British indicating that the British and AIOC positions remained firm. (888.2553/1-3054)

No. 417

888.2553/1-2953: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET NIACT TEHRAN, January 29, 1954—1 p. m.

1659. Noforn. For Hoover.

1. I do not understand precisely why Foreign Minister thus far has not frankly told Wright what he has told me, that is that Iranian Government would not wish any single company to have as much as 50 percent shares in consortium (London telegram 132, January 29 [*28*], paragraph 7 Department 3230). Foreign Minister told me on January 27 that during afternoon that day he would informally discuss with oil policy group message which Wright had given him on January 23. I asked Foreign Minister if he had as yet asked Wright meaning of words "in which AIOC would have an appropriate share". He replied he had preferred not to discuss with Wright specific points that message until he had opportunity talk with Prime Minister and other members Cabinet. It his intention discuss message further with Wright morning January 30. Foreign Minister told me by telephone this morning he still planned talk with Wright January 30. I cannot be sure that during this conversation he will raise point re amount AIOC participation. I believe, however, he still of opinion expressed to us last fall that no company should own as much as 50 percent of shares. If British in London continue insist Iran is prepared agree AIOC have 50 percent participation you might care state that both Prime Minister and Foreign Minister were quite explicit last fall in stating their views in this regard and suggest that Wright be instructed to obtain clarification in order make sure plans for organization consortium would not be formulated on false assumption.[2]

2. Re paragraph 6, reference London telegram. In our opinion it would be unfortunate if "small top-level consortium group" dominated by AIOC should come to Iran to determine desires Iranian Government re participation and other points. Such group might present Iranian Government with AIOC views rather than with those of other member companies and of HMG. Group thus dominated might make bad impression on Iranian public and discourage

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[1] Sent to London as telegram 519 and repeated to the Department.

[2] Ambassador Henderson informed Hoover in telegram 523, repeated to the Department as 1668, Jan. 30, that Foreign Minister Entezam that morning had told him that he, Entezam had not informed Wright that the Iranian Government did not wish any single company to have as much as 50 percent participation in the consortium because neither the Shah nor the Prime Minister had authorized him to disclose this information. (888.2553/1-3054)

Iranian circles including members government who are anxious find reasonable and durable solution. Certainly Fraser or a person of his type should not head group this kind. It would be preferable if head could be UK Government official prepared give consideration to all factors involved.

3. We hope not necessary indicate too much annoyance re fact Wright spoke to Government Iran re additional US budgetary support. We believe he trying cooperate loyally with us and merely made mistake judgment (Deptel 3906 to London).[3]

HENDERSON

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[3] In telegram 3906, Jan. 29, the Department informed Hoover that he could express the Department's annoyance that Wright had informed the Iranian Government that the British Government had approved of the United States possibly providing additional budgetary support to Iran in the absence of an oil settlement. As the Department was uncertain of finding funds to meet such an eventuality, Wright's statement could prove extremely embarrassing. (Telegram 3906, repeated to Tehran as 1619; 888.2553/1–2854)

No. 418

888.2553/2–354: Telegram

The Ambassador in the United Kingdom (Aldrich) to the Department of State[1]

SECRET PRIORITY LONDON, February 3, 1954—7 p. m.

3314. Limit distribution. From Hoover. At several small meetings this week involving Sir Harold Caccia (replacing Sir Pierson Dixon at Foreign Office effective February 1) and/or Maud of Ministry Fuel and Power on HMG side, and Butterworth and/or Hoover on US side, present situation appears following:

1. Official attitude HMG and AIOC continues that (a) AIOC should have minimum 50 per cent participation in consortium with tacit assumption of dominance in management, and (b) that consortium negotiating team headed by AIOC should go Tehran in approximately one month to start final negotiations with Iran Government determine simultaneously (1) maximum participation AIOC may obtain and (2) other remaining terms of agreement.

2. Some encouraging indications that HMG considering modification above attitude, but action by no means certain since such change would require Cabinet decision.

3. Caccia and Maud appeared attach considerable significance our statements that US Government did not desire (a) to reduce participation of AIOC for purpose of obtaining greater share for US

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[1] Repeated to Tehran.

companies and (b) that US companies should have larger share than AIOC.

4. I considering return Washington next few days, unless advised contrary, for purpose discussion US position and future policies with Department and heads US companies.

Aldrich

No. 419

788.5 MSP/2-554 Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET PRIORITY TEHRAN, February 5, 1954—5 p. m.

1719. Deptel 1650, Embtel 1568,[2] Tousfo 845, Tousfo A-634.[3]

1. Both Embassy and OMI deeply regret learn from Deptel 1650 February 2 that Washington has found that only $6 million could be made available for additional emergency assistance Iran during remainder current fiscal year although we not surprised since we have realized that such aid as has already been extended to Iran has placed great strain on available appropriations. However analysis your paragraph 4 indication $9 million available from aid dollars in note cover plus $6 million new aid would meet $15 million required appears based on misunderstanding our assumptions reflected Embtels 1568 and Tousfo 845. We and Iran Government already counting on use rials derived from sale aid dollars now in note cover at rate 83.7 rials per dollar (see joint planning table forwarded Tousfo A-634).

2. We somewhat encouraged by paragraph 5 reference telegram indicating that State and FOA will constantly review question availabilities versus commitments and that by about May agencies will be in better position evaluate various contingency needs NEA areas. We now revising estimates to show probable effects addition $6 million in place of $15 million requested. Major uncertainties continue make forecasts hazardous. Will keep you currently informed.

3. We earnestly recommend that additional $6 million be extended as grant and not as loan. Despite our repeated injunctions to Iran Government that it should not expect emergency aid from US in addition to that already extended Shah and members government as well as political circles backing government had been

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[1] Passed to FOA and Treasury.

[2] Dated Feb. 2 and Jan. 16, neither printed. (788.5 MSP/1-1654)

[3] Neither found in Department of State files.

placing reliance upon continued US support until Iran would be in position carry on effectively without such support. Announcement that Iran can be assured of only $6 million additional aid even though progress direction oil settlement much slower than had been originally anticipated almost sure therefore in spite our best efforts create impression on Iran Government and public that US determination see Iran through difficult crisis in which it still finds itself is beginning to weaken. If we should propose that this $6 million be in form loan rather than grant this impression would be greatly strengthened. We can argue that US Government not able advance funds in excess amounts appropriated. It would be somewhat more difficult to explain why attitude US Government toward Iran has changed to such extent that whereas we previously willing give aid in form grant we now prepared offer such funds as are available only as loan. Furthermore loan must be approved by Majlis. We doubt if Iran Government would be willing ask Majlis approval of US loan so small as $6 million. If it should do so feelings of disappointment might run so high in Majlis that government would be compelled to resign.

4. Suggest that we be authorized inform Iran Government that although US would like assist Iran carry on until such time as revenues begin to accrue from oil it finds to its regret it has available for additional aid to Iran only $6 million from funds appropriated by the Congress. US Government hopes however that Iran Government with additional $6 million augmented by such further funds as it might realize from aid dollars in note reserve and other sources will be able to carry on until oil settlement is achieved.[4]

5. Believe modest publicity only should be given decision re additional $6 million. In fact would be preferable if publicity could come for most part from Iran Government itself.[5]

6. Any information which might give me US attitude re Export Import Bank loan would be helpful. Matter has not been raised of late by Iran Government and I do not intend discuss it unless

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[4] On Feb. 11 the Department informed the Embassy that it agreed with the Embassy recommendation that $6 million should be a grant rather than a loan, and that the Iranians could be informed along the lines suggested in paragraph 4 of telegram 1719 from Tehran. The Department also sought to reassure the Embassy that the Department intended to continue to evaluate Iran's needs and to measure them against availabilities. (Telegram 1706; 788.5 MSP/2-554)

[5] On Feb. 13 the Department informed the Embassy in Tehran that it agreed with the Embassy's recommendation in paragraph 5 of telegram 1719. (Telegram 1721; 788.5 MSP/2-554)

pressed. I assume Ambassador Entezam and Nemazee will initiate discussions on arrival Washington later in month.[6]

HENDERSON

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[6] Chargé Rountree reported on Feb. 15 that he and Warne had met with the Foreign Minister and Finance Minister and had advised along the lines suggested in paragraph 4 of telegram 1719 from Tehran and authorized in telegram 1706 to Tehran regarding the $6 million grant. The two Iranian officials appeared genuinely appreciative, although, Rountree said, it was clear that they had hoped for a larger amount. (Telegram 1772; 788.5 MSP/2-1554)

No. 420

888.2553/2-554 Telegram

The Ambassador in the United Kingdom (Aldrich) to the Department of State[1]

TOP SECRET PRIORITY LONDON, February 5, 1954—4 p. m.

3351. Limit distribution. From Hoover.

1. Re Berlin's Secto 75 to Department, repeated London 115.[2]

2. Conversation between Secretary and Eden re difficulties encountered in Iranian oil situation appears most timely and gives hope that HMG and AIOC will not prove inflexible re matter 50% interest for AIOC.

3. If opportunities arise Secretary may wish assure Eden that US does not desire reduce AIOC interest for purpose increasing share of US companies, and that US does not believe US companies should have larger share than AIOC.

4. This presents possibility of AIOC and US companies having equal shares and that Shell, which is generally regarded as British concern and in which there is large private British investments,

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[1] Sent priority to Berlin for Merchant as telegram 82 and repeated to the Department and Tehran.

[2] Secretary Dulles informed the Department in this telegram dated Feb. 3 that he had a conversation with Foreign Secretary Eden, during which Eden made the observation that the situation in Iran was much improved. Dulles agreed, but went on to say that there were still great difficulties to overcome, that an early settlement of the oil issue was vital, and that he did not think it certain that the AIOC would be able to maintain its position that it had to have a 50 percent interest in the new consortium. He urged that AIOC accept less than 50 percent. Eden had replied that it would be very difficult for AIOC to accept less than 50 percent participation, as the United Kingdom would be left open to the charge that the oil companies were taking over the AIOC position in Iran. Dulles replied that this was absurd in view of the fact that the American oil companies were reluctant to participate in a consortium in the first place. Eden agreed but said that public opinion was difficult. (Conference files, lot 60 D 627, CF 210)

Secretary Dulles was in Berlin as head of the U.S. Delegation to the Four-Power Conference.

could become a substantial third partner. Such a solution should be acceptable to British public opinion, inasmuch as AIOC and Shell combined would have more than a majority interest.

5. Such a solution would be more defensible before Iranian public opinion than domination by AIOC alone, due to large Dutch interest in Shell.

6. From long term viewpoint we also believe such a solution advantageous because combined judgments of at least two groups would be required for the formulation of policy.

ALDRICH

No. 421

888.10/2-1054

Memorandum by the Director of the Office of Greek, Turkish, and Iranian Affairs (Richards) to the Assistant Secretary of State for Near Eastern, South Asian, and African Affairs (Byroade)[1]

SECRET WASHINGTON, February 10, 1954.

Subject: Export-Import Bank Loan for Iran.

You will recall that Iran recently inquired whether the U.S. was prepared to activate an Export-Import Bank loan before the actual conclusion of an oil settlement.[2] Following this, Ambassador Henderson was asked whether or not a loan at this time would lessen the incentive for the Iranians to conclude an oil settlement (Deptel 1673).[3] Ambassador Henderson in replying (Embtel 1734)[4] argues in favor of extending the loan now, pointing out the psychological advantages of demonstrating that we are not applying pressure against Iran at the time when an oil settlement is under negotiation and that we are not weakening in our resolve to support the present Iranian Government. From an economic standpoint he points out the advantages of minimizing delays in actually accomplishing projects by getting started at once. He concludes that extension of the subject loan would not lessen the incentive for the Iranians to resolve the oil controversy.

On the other hand, Mr. Herbert Hoover, Jr. has indicated that while he has no strong feelings about the loan, he is "mildly opposed" on the grounds that it is not designed to meet Iran's present need.

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[1] Drafted by R. B. Crowl of GTI.

[2] The Embassy in Tehran reported this request in telegram 1470, Jan. 6. (888.10/1-654)

[3] Not printed. (888.10/1-654)

[4] Not printed. (888.10/2-854)

Recent experience with this problem leads us to believe that unless NEA is prepared to present a strong case in favor of extending an Export-Import Bank loan now, we are unlikely to make much progress in the matter. One difficulty is that Treasury is opposed, as a matter of general principle, to the Export-Import Bank granting any more development loans except in unusual circumstances. I would appreciate your views as to whether you are inclined to endorse presenting the Iranian case as exceptional for warranting an Export-Import Bank loan.[5]

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[5] The following handwritten response to this final sentence appears on the source text: "Yes—I think we should try. B[yroade]".

No. 422

Editorial Note

On February 11, the National Security Council, at its 184th meeting, discussed several topics, one of which was United States policy toward Iran. As a result of this discussion, the National Security Council adopted the following statement as NSC Action No. 1039:

> "Discussed the subject in the light of an oral report by the Secretary of the Treasury on the status of negotiations with the British for implementation of the proposed Plan referred to in NSC Action No. 1021; and agreed that, in the national security interest, the United States Government should maintain a firm position in support of the Plan in order to achieve a prompt settlement of the Iranian oil controversy." (S/S-NSC (Miscellaneous) files, lot 66 D 95, "Record of Actions by the NSC, 1954")

For text of NSC Action No. 1021, see footnote 8, Document 414.

No. 423

888.2553/2-1554: Telegram

The Acting Secretary of State to the Secretary of State, at Berlin[1]

TOP SECRET
PRIORITY

WASHINGTON, February 15, 1954—7:22 p. m.

Tedul 50. Limit distribution.

1. Department hopes be in position this week instruct Embassy London present joint views US Government Cabinet level and US companies on number important aspects position Iranian oil settlement to UK Government. Included very importantly in this presentation will be points that US Government and companies feel question of percentage participation should be worked out Government level and that US Government deeply regrets must firmly reject British position AIOC should have as much as 50% participation.

2. Hope you can have further talk with Eden before leaving Berlin indicating US Government backs position US companies that participation must be worked out Government to Government. US companies are reluctant to participate and are doing so solely in interest of contributing to sound solution at invitation AIOC and at urging of US Government. They feel that they themselves in no position evaluate sound solution, especially from Iranian standpoint. US Government supports their position this question and accepts responsibility for determining percentages participation in view fact this not ordinary commercial negotiation.

3. On matter size AIOC participation US Government feels AIOC participation as large as 50% would place in hands of opposition present Iranian Government powerful weapon against reaching a solution or carrying out an operating program effectively thereafter. US Government feels strongly this added and unnecessary risk should not be assumed. US Government could not urge US companies participate under arrangements which would give AIOC such a dominant role. In presenting this position you may wish emphasize to Eden that in no sense should it be interpreted as desire of US Government or US companies to control or dominate. There is no desire for US interest larger than that AIOC. Furthermore, US would not object to total British interest over 50% accomplished, for instance, by association in venture of Shell. This position should forestall any British public or Parliamentary feeling that this is effort obtain US dominance enterprise. This, it seems to us, is the important point to sell to Eden. Our position AIOC percentage par-

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[1] Repeated to London and Tehran. Drafted by Raynor and Hoover, cleared by Richards and Byroade, and signed by Richards.

ticipation based solely on consideration Iranian political factors which we believe overriding. Were AIOC to have as much as 50% in consortium this would certainly be regarded generally in Iran as merely cloak for return of AIOC to Persia and would become focal point for Tudeh and communist propaganda.

4. FYI. Our initial suggestion to UK Government will probably be magnitude of 35% each for AIOC and US companies with remaining 30% to shell. US willing accept 40% each for AIOC and US companies with remaining 20% to Shell, but placing initial suggestion lower in view apparent UK desire to trade on all points. Above suggestions made on assumption French interest would not exceed one or two percent, and would be taken from AIOC or Shell share. End FYI.[2]

SMITH

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[2] The Department informed the Secretary in Berlin, on Feb. 17 that it had not as yet made the representations contained in Tedul 50 to the British. The Department was waiting until it was informed of Eden's reactions. (Tosec 160; 888.2553/2-1754)

No. 424

Conference files, lot 60 D 627, CF 215

Memorandum by the Assistant Secretary of State for European Affairs (Merchant) to the Secretary of State[1]

TOP SECRET [BERLIN,] February 16, 1954.

Subject: Iranian Oil Settlement

It is likely that this week the views of the United States Government and the American oil companies will be presented to the British Government on an Iranian oil settlement. We consider that the question of percentage participation of the companies should be worked out on the government level and reject most firmly the British position that the Anglo-Iranian Oil Company should have 50 per cent participation. We feel this would place in the hands of the opposition in Iran a powerful weapon against reaching agreement, and we could not urge American companies' participation under arrangements which would give the AIOC such a dominant role. *We do not wish to control or dominate*. We would not object to a total British interest of over 50 per cent, accomplished by an association in venture of the Shell Company. We believe this is an important point to sell to Eden. Our main concern is that if AIOC were to have as much as 50 per cent participation in the consortium, this would be regarded in Iran as a cloak for the return of AIOC to Persia, a fact the Communists would play up.

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[1] Drafted by Edward Page of the U.S. Delegation at the Berlin Conference.

The Department suggests you talk to Eden on the above matter indicating that the US Government backs up the position of the American companies that percentage must be worked out on a government level. The companies are reluctant to participate and are doing so solely in the interest of contributing to a sound solution. They feel that they themselves are in no position to evaluate such a solution, especially from the Iranian standpoint. We support their position and accept responsibility for determining percentage participation. We consider this no ordinary commercial negotiation.[2]

LTM

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[2] The following handwritten notation appears on the source text: "Sec saw R[oderic] O'C[onner]".

No. 425

888.2553/2-1854 Telegram

The Acting Secretary of State to the Embassy in Iran

TOP SECRET WASHINGTON, February 18, 1954—6:47 p. m.

1745. Limit distribution. Following is report Secretary's conversation with Eden Feb 17 Berlin:

Iran. I said I did not think Anglo-Iranian could hold 50 per cent position. We were not trying to get larger US position, but only trying to meet political realities in Iran. Eden said that he had thought 50 per cent probably unobtainable, but hoped to get as close to this as possible with position for Dutch Shell. I emphasized US companies were not themselves seeking large participation, but only going along at Government request and that our judgment would be entirely a political judgment based on estimate Iran situation.

SMITH

No. 426

888.2553/2-1954 Telegram

The Acting Secretary of State to the Embassy in Iran[1]

TOP SECRET
PRIORITY

WASHINGTON, February 19, 1954—12:34 p. m.

1749. Limited distribution. Following *Aide-Mémoire* handed British Ambassador morning of February 19:

"1. During recent discussions in London, Mr. Herbert Hoover, Jr. received in effect the following British proposals:

A. The principals of United States companies should come to London soon to negotiate with the AIOC percentages of participation as well as management, investment and other key factors relative to establishment of Iranian oil consortium.

B. As soon as possible thereafter, group of consortium representatives would go to Iran for definitive negotiations with Iranian Government, such negotiations to determine, among other things, respective percentage participation of members, including maximum interest by AIOC which would be acceptable in Iran.

2. Foregoing proposals have been considered by US Government at Cabinet level and have been discussed with US companies concerned. Following reflects firm position of US Government on above two points:

A. US Government does not feel US companies are in position to bargain with AIOC on matter percentages. US companies have been invited to participate in consortium by AIOC and have been urged to do so by US Government. They have no commercial desire participate and will do so solely in interest of contributing to sound solution in Iran and to improvement of international situation in Middle East.

B. In absence of firm agreement on percentages of participation, US Government does not feel US companies can join in definitive negotiations with Iranian Government without risking serious misunderstandings, thereby weakening solid front that will be necessary if successful negotiations are to be carried out. US Government believes that such misunderstandings might well jeopardize firm relationships which must exist between US and UK in Iran, and are so necessary to successful solution of this problem as well as to stability of entire Middle East.

3. Until matter of percentage of participation is determined upon some basis which all parties can fully support, US Government feels that it is not feasible (a) for principals of US companies to negotiate certain additional points necessary to set up consortium or (b) for consortium to undertake final negotiations with Iranian

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[1] Repeated to London.

Government in Tehran. US Government has therefore suggested to principals of US companies that they should not go to London for meetings tentatively scheduled for February 22 until matter of percentage participation has been resolved.

4. US Government considers that agreement on percentage of participation in consortium should be reached at governmental levels for reasons set forth in paragraph 2(A) above and in view of fact that this is not ordinary commercial negotiation.

5. US Government is aware of views of British Government that AIOC should have 50 percent interest in venture. US Government deeply regrets that it is unable support this position as it feels that such a percentage would gratuitously place in hands of opponents of present Iranian Government powerful weapon against consummation of satisfactory agreement, and its subsequent approval by Majlis. Furthermore, even if agreement could be reached and ratified on that basis, US Government has most serious doubts, in light of its inevitable distortion by Iranian demagogues, that it would endure over period of years to degree which would permit effective operations. US Government feels that this added and unnecessary risk should not be run and accordingly cannot urge US companies participate under arrangement which it feels would inevitably invite most serious repercussions.

6. US Government wishes emphasize that foregoing should in no sense be interpreted as desire on its part or on part of US companies to control or dominate proposed operations in Iran. There is no desire have larger US interest than that of AIOC. Furthermore, US would not oppose total British interest of over 50 percent accomplished by associating Shell in venture, and would in fact be prepared to support such an arrangement with Iranian Government. US believes that this position should forestall any British public or Parliamentary feeling that there is an effort to obtain US dominance in enterprise. Position of US as regards percentage participation by AIOC based on considerations of Iranian political factors which are believed to be completely overriding in this matter. Such arrangement would become focal point for Tudeh and communist propaganda on one hand, together with that of extreme nationalists on other. US Government feels that oil settlement must be one which will be conducive to developing stability in Iran which it regards as of utmost importance in view of constant Soviet threat.

7. To accomplish desired results, US suggests percentage participation of magnitude of 35 percent by AIOC, 30 percent by Shell, and 35 percent total by US companies.

8. US Government fully shares concern of Government of UK that oil settlement should be pressed at earliest possible moment.

It is believed highly desirably that Prime Minister Zahedi be in position present oil agreement acceptable to Iranian public for formal approval early in new session of Majlis.

9. US Government therefore hopes question of participation may be settled promptly at government level in order that principals of US companies may be in position proceed London near future to resolve other outstanding questions."[2]

SMITH

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[2] On Feb. 19 the Department informed the Embassy that, when handing the *aide-mémoire* to the British Ambassador, the Acting Secretary emphasized that the U.S. position had been the subject of extended discussions in the U.S. Government, including the Cabinet and the NSC, and that the U.S. position was firm. (Telegram 4285 to London; 888.2553/2-1954)

No. 427

788.5 MSP/2-1954 Telegram

The Acting Secretary of State to the Embassy in Iran[1]

TOP SECRET WASHINGTON, February 19, 1954—3.15 p.m.

1751. A. New NSC policy on Iran states:

(1) US grant military aid is designed to

> "(a) improve ability Iranian armed forces maintain internal security and provide some resistance to external aggression, and
>
> "(b) enhance prestige of monarchy and morale Iranian Government and military services."

(2) Amount and rate of such military aid to Iran should take into account

> "(a) attitude of Iran with regard to this aid and with regard to political, economic and military cooperation with free world including Turkey, Pakistan and possibly Iraq, and
>
> "(b) Iran's ability satisfactorily to absorb military equipment and training and its willingness at an appropriate time to formalize necessary contracts for military aid and training."

(3) In addition, NSC policy states Iran should be encouraged "to enter into military cooperation with its neighbors as feasible, and to participate in any regional defense arrangement which may be developed for the Middle East."[2]

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[1] Drafted by Ben F. Dixon, NEA, and Richards. Signed by Byroade after being cleared with Robert B. Black, Fretchling, and Colonel Gordon of the Department of Defense.

[2] These quotations are from NSC 5402, Document 403.

B. You are authorized use substance foregoing in answer Shah's inquiry as to future Iranian forces. You may find it convenient approach Shah shortly after issuance Turk-Pak communiqué[3] and announcement US intention provide military aid Pakistan this context. (We anticipate making announcement military aid to Pakistan about February 25[4] and you should approach Shah re subject this tel immediately thereafter, see Deptel 1722[5] for background information.) Referring these developments, you may wish point out that delay in reply Shah's query due extended study Iranian security problem as part of general security problem of area and relationship American military aid thereto. While Department considers you in best position decide manner presentation revised US views on Iran to Shah, you may wish consider following approach:

(1) US view at highest level is that Iranian armed forces should develop some capabilities beyond those strictly required for internal security. UK concurs in this view.

(2) Although funds limited and inadequate meet urgent needs throughout world, US prepared grant Iran certain additional military assistance scope of which should be described in terms of end-items and training (recommendations from you and McClure will be basis for decision as to what buildup including armament, equipment and training seems feasible and desirable).

(3) However, believe that continued acquisition of heavy armament and equipment cannot within foreseeable future enable Iran alone to withstand outside aggression. We inclined believe only really feasible means for Iran to counter outside aggression or forward security interests is through joining hands with neighboring countries in coordinating defenses of area.

C. FYI only, it was recently decided to earmark an additional $19 million to existing military aid program for Iran. Of this amount $5 million was taken for "morale" needs now being provided. Remaining $14 million tentatively scheduled to be programmed for purposes set forth in B(2) above. The additional funds will permit some expansion, but on scale substantially less than has been recommended. Except for small amount to be provided for continuing maintenance of existing program, foregoing represents entirety of funds presently contemplated for Iranian military assistance program. Whether or not further funds for expansion might ultimately be approved or requested from Congress would most probably depend upon:

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[3] For text of the Turkey-Pakistan communique of Feb. 19, see Department of State *Bulletin*, Mar. 1, 1954, p. 327.

[4] For text of President Eisenhower's statement of Feb. 25, see *ibid.*, Mar. 15, 1954, p. 401.

[5] Not printed. (782.5/2-1354)

(1) absorption of aid rendered and valid and justifiable new planning under new NSC policy,

(2) priority of new proposals for Iran against all other calls for US assistance around world,

(3) degree of attainment of stability by Iranian Government including resolution of important internal problems,

(4) development in area defense arrangements plus demonstrated Iranian ability effectively to progress in developing military capability to participate effectively in regional defenses.

D. We fully realize it presently premature press for Iranian agreement join area defense arrangements, but in conversation with Shah you should make it apparent US interest in regional defense arrangements will influence decision regarding future military aid beyond program presently contemplated for Iran.

E. With reference A (2) (b) above, would appreciate your comments regarding possibility use aid funds encourage Iranian Government "formalize necessary contracts for military aid and training."

F. Regarding B (1) above, British doubt that really effective Iranian forces could be developed, but believe nevertheless that in addition to internal security forces Iran should develop small highly mobile commando-type units for delaying harassing operations in northwest.

Pertinent points foregoing communicated to British Embassy Washington.[6]

SMITH

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[6] On Feb. 20 the Department instructed the Embassy in Tehran to withhold action on approaching the Shah until the Department sent further instructions. The British desired additional time to consider the matter further. (Telegram 1761; 788.5/2-2054)

No. 428

888.2553/2-2354 Telegram

The Secretary of State to the Embassy in the United Kingdom[1]

TOP SECRET WASHINGTON, February 23, 1954—6:03 p. m.
PRIORITY

4334. Limited distribution. Following *aide-mémoire* handed to Secretary of State by British Ambassador February 23:

"It was proposed, in *aide-mémoire* handed to Sir Roger Makins by General Bedell Smith on February 19, that the shares to be held by oil companies concerned in Persian consortium should be settled by negotiation between US and UK Governments.

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[1] Repeated to Tehran.

2. HMG have hitherto taken view that companies should be left to settle percentages of their participation on commercial rather than national basis. Since however they share view of US Government that there should be as little delay as possible before negotiations are opened with Persian Government, they are ready to accept procedure suggested in *aide-mémoire* of February 19, namely that question of percentages should first be agreed between US and UK Governments.

3. It is understood that agreement would be subject to subsequent acceptance by companies, other than AIOC who have already been consulted.

4. HMG are willing to agree that share of AIOC should be less than 50 percent, provided that arrangements to be made for compensation are satisfactory and provided that US companies in aggregate do not hold larger share than AIOC.

5. HMG consider that it is necessary, at outset, to offer equal shares to all other participating companies.

6. As means of putting these principles into effect, HMG suggest that AIOC should hold a 44 percent share in consortium and each of other seven companies share of 8 percent. Should any of companies not wish to take up full share offered to it, remainder could be allocated to other companies subject to maintenance of principle stated in paragraph 4 above.

7. If proposal is acceptable to US Government, UK Government hope that principals of US companies will leave for London as soon as possible in order that negotiations between members of consortium may be completed."

DULLES

No. 429

888.2553/2-2454: Telegram

The Secretary of State to the Embassy in the United Kingdom[1]

TOP SECRET WASHINGTON, February 24, 1954—7:01 p. m.
PRIORITY

4365. Limited distribution. Department considering making following points re Iran oil to British Ambassador 11 AM February 25:

"1. US Government, considering situation in Iran, and bearing in mind particularly importance of reaching oil settlement that will be durable, feels that its original proposal in its *Aide-Mémoire* of February 19 is sound.

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[1] Also sent to Tehran. Drafted by Hoover and Raynor and signed by Richards after being cleared in substance by Byroade.

2. In effort to meet views of HMG, however, US Government prepared support participation by AIOC to extent of 40 percent. In view of political situation in Iran as previously outlined, US Government would find it difficult justify asking American companies to enter into arrangement under which AIOC would have more than 40 percent participation.

3. US Government is agreeable to suggestion in British *Aide-Mémoire* of February 23 that American companies participate to extent of total of 40 percent.

4. As to remaining 20 percent, US would hope that most of this could be taken by Shell, thus increasing British share. US Government has been led to believe that French not interested in appreciable position. US Government would like to know proposed participation by French and Shell interests before urging that American companies participate.

5. If agreement can be reached as indicated above, principals of US companies will be ready at once proceed London to go into other questions, such as compensation, sterling-dollar oil, arrangements for operating in Iran, etc.

6. Mr. Hoover would also be available to go London for discussions if his presence should be desired."

Your immediate comments welcome.[2]

DULLES

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[2] On Feb. 23 the Embassies in London and Tehran concurred in the proposed reply to the British Ambassador. (Telegrams 3654 from London and 1830 from Tehran; both 888.2553/2-2554)

The Department informed the Embassy in London on Feb. 25 that Under Secretary Smith saw British Ambassador Makins on that day and made all the points contained in telegram 4365. Smith stressed that the United States wanted the overall initial allocation of 40 percent to American companies to be a general proposition rather than a direct allocation in equal amounts to the consortium participants, as it was unclear whether or not the American companies wished to participate equally. The Under Secretary, among other things, also stressed that the U.S. position regarding 40 percent participation in the consortium was firm. (Telegram 4378 to London, repeated to Tehran as 1775; 888.2553/2-2554)

No. 430

788.5/3-154 Telegram

The Acting Secretary of State to the Embassy in Iran[1]

TOP SECRET NIACT WASHINGTON, March 1, 1954—7:16 p. m.

1798. 1. Re Deptel 1782 rptd info London 4405[2] if you have not yet made appointment with Shah, prefer you hold up until further instructions because of continuing conversations with British.

2. In our discussions with British here, we have found it useful to seek agreement upon following informal memorandum which is transmitted for your information. We do not consider form or phrasing this memo need alter your presentation of problem to Shah in any substantial way from instructions in previous reftels:

> "It is suggested that the Shah may be told:
>
> (a) US and UK agree that the Iranian armed forces, while bearing in mind the need to stabilize Iran's economy, should develop some capabilities beyond those strictly required for internal security;
>
> (b) our future attitude regarding an increase of Iranian armed force capabilities would inevitably be influenced by developments in the area as a whole;
>
> (c) the military aid which, in future, may be extended by the US will be dependent upon appropriations by Congress which in turn will be influenced by our impression of Iran's defense posture as it develops as a result of the additional aid now being made available.
>
> The US and UK agree with what they agree to be the Iranian view that it is not now feasible for Iran to enter into military cooperation with other Middle East countries and that, for the time being, Iran should not be expected to participate in regional defense arrangements. Eventual participation by Iran will be influenced by developments in the area as a whole as well as developments, both military and political, within Iran."

3. British have emphasized desirability informing Shah US and UK have reached joint broad agreement re future Iranian armed forces, but that Shah may wish discuss matter with British Ambassador. Shah reportedly alluded to problem when British Ambassador recently presented credentials. However it is hoped Shah can be discouraged from drawing any inference that he may obtain divergent UK view in any discussions with British Ambassador sub-

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[1] Repeated to London. Drafted by Stutesman and approved by Byroade.

[2] In telegram 1782, Feb. 26, the Department informed the Embassy that the subject of telegram 1751 to Tehran, Feb. 19 (Document 427), had been discussed again with British Embassy officials, and that it was agreed that Henderson was to postpone his approach to the Shah until Mar. 2 in order to give the British the opportunity to comment. Accordingly, Henderson was to proceed along the lines of telegram 1751 on Mar. 2 unless instructed otherwise. (788.5/2-2654)

sequent to your presentation of "joint broad agreement". British Ambassador has reported to Foreign Office any indication in this direction would "make deplorable impression".

4. Although it was Shah who raised original question re future Iranian armed forces and it is to him that joint US-UK reply should be made, it is hoped you will find opportunity discuss matter with Prime Minister or, in your discretion, Minister Foreign Affairs.[3]

SMITH

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[3] Ambassador Henderson acknowledged receipt of this instruction on Mar. 2, and reconfirmed that he would not see the Shah until instructed to do so. (Telegram 1862; 788.5/3-254)

No. 431

788.5/3-454: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET **PRIORITY** TEHRAN, March 4, 1954—noon.

1872. Limited distribution. In view its contents, urge extreme care distribution this telegram.

1. It not quite clear to me whether Department has in mind that in answering questions which Shah put to me last autumn re future Iranian army, I keep in framework memorandum set forth in paragraph 2, of Deptel 1798, March 1, information London 4454.

2. If I should confine my answer to points outlined in that memorandum, Shah undoubtedly would think I not being frank with him. He could be expected try to draw me out, asking series of questions, as for instance:

(a) What do we mean by "some capabilities"; is he to interpret this expression as "capability to engage in delaying-defense action?" or

(b) What do we mean when we state "our future attitude . . .[2] would inevitably be influenced by developments in area as a whole"; what kind of developments; specifically which area; in which directions might we be influenced? or

(c) What are we contemplating at this moment for Iranian army; can't we give him some indication of what should be done to army in present circumstances so he can make plans for immediate future; how can he be expected to take action on basis such vague generalities? or

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[1] Transmitted in four sections; also sent to London.

[2] Ellipsis in the source text.

(d) What kind of "defense posture" should Iran assume in order influence Congress give sufficient additional aid to enable Iran have delaying defense capabilities? or

(e) What precisely do we mean when say eventual Iranian participation in regional defense arrangements "will be influenced by developments in area as a whole as well as developments in Iran"; if all right for Turkey and Pakistan to participate in regional defense arrangements without awaiting certain developments in area, why do we think Iran should wait?

2. [*sic*] If I give evasive replies to questions this kind or if I avoid frank discussion our position Shah will become suspicious. He may conclude US and UK not in agreement re kind of armed forces Iran should have. He may even suspect US and UK have privately agreed Iran expendable and therefore minimum amount men, matériel, and funds should be wasted on its defense. Suspicions this kind on part Shah would almost certainly become known to his close advisers; they could not long remain concealed from his military leaders; in absence adequate security measures in Iran they would eventually become known to Russians.

3. If on other hand I should give frank replies based on Deptel 1782 information London 4405[3] to various questions which Shah might put to me and if British Ambassador in subsequent conversations should follow somewhat different line, Shah would conclude British and we not in agreement re role Iran should play in maintenance ME security. Such conclusion would be unfortunate.

4. It seems to me our difficulties in formulating reply to Shah's questions re future Iranian armed forces are in part reflections difficulties which US and UK are encountering in deciding in advance what to do in case Soviet Union should engage in unprovoked aggressive war against Iran. On one hand there are tendencies to consider Iran or at least northern part Iran as expendable; to take position it preferable for free world lose all or portion Iran rather than to try wage local defensive war in Iran against Soviet Union or to become involved in another world war because of Iran. Apparently both US and UK believe it would be almost impossible for them turn back Soviet forces in war localized in Iran. At same time both seem still be unwilling decide—and prepare for implementation of such decision—to regard Soviet aggression against Iran as attack on free world which must be answered by countermeasures against Soviet Union in theater of free world's choosing. Situation seems somewhat similar to that of Korea in spring 1950 except that we have not thus far let Communist world know, as we did in case Korea in 1950, that we do not consider defense Iran

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[3] See footnote 2, *supra*.

vital to security free world. Shah's questions would tend to bring to fore certain problems latent in our inability make firm decisions re Iran.

We do not like idea for instance of expending human and material resources in efforts strengthen Iran army if that army with all its equipment in absence help from US is certain eventually to fall in Soviet hands in case of Soviet aggression. Furthermore, if we commit ourselves to preparing Iran army to engage in delaying-defensive action in case of Soviet attack and if subsequently Iran falls victim to Soviet aggression our prestige as defenders remainder free world would be affected more seriously than it would have been if we had, from beginning, taken position that Iran was expendable. On other hand we realize that if Iran should obtain impression US and UK would not consider aggression against Iran as aggression against free world to be met with all forces at their command, it would become discouraged and in its hopelessness it doubtful that it would be able, over extended period time, put up effective resistance against Communist infiltration. Soviet Union would probably be able eventually to take over an apathetic Iran without necessity resort to armed aggression. Furthermore, if Soviet Union should itself become convinced US and UK consider Iran expendable, it certain immediately to adopt more aggressive attitude re Iran. I aware certain circles both in UK and US who even as of today fail understand basic motivations Soviet Union, still toy with idea settling problem Iran by compromise; by letting Soviet Union have north with understanding south to remain in free world. Cynical solution this kind vapid and impractical: its adoption would almost certainly result in loss Iran and all ME and might involve moral international bankruptcy of US and UK.

5. It seems to me that we have no choice other than (a) to decide aggressive armed attack on Iran by Soviet Union will be considered as attack on free world which Soviet Union must understand will result in free world (or at least US and UK) mobilizing their full military and political forces against Soviet Union; or (b) to do our utmost to conceal from world public, particularly from Iran and Soviet Union, fact we may prefer to see Iran fall victim to Soviet aggression rather than to become involved in war with Soviet Union over Iran. It seems to me that (a) is realistic and logical choice; that regardless our desire for peace, war will become inevitable if Soviet Union should seize Iran and that it would be preferable fight immediately on basis principle rather than later on basis expediency after Soviet Union has already had time convert Iran into armed bastion from which to launch further attacks on ME and South Asia. I realize, however, that in view certain military, technical, psychological, and political factors it may be found inad-

visable to take position (a) at this time and that we may be compelled choose (b) at least for time being. It seems to me that whether we choose (a) or (b) it important that we give Shah kind of reply which will encourage him believe US and UK determined support independence of Iran and will give him, Iran leaders, and eventually Iran public ground to hope Iran has as good chance of survival as other countries of free world. We should, therefore, indicate to Shah our agreement that Iran should have army capable of certain amount of defensive action and that we are prepared if Iran desires to increase our military assistance to help Iran have such army. We might emphasize, however, that Iran army should not be developed into one of character which would make such heavy financial demands on Iran budget during years to come as seriously to retard development of Iran national economy. We might add that in our opinion with careful planning Iranians could within a few years after oil settlement be able support modest army capable of slowing up advance across country of invading enemy without unduly burdening its economy. Such army should be developed gradually and unspectacularly over period of time, special care being taken not to reorganize in haste which would give rise to waste and confusion and not to burden it with unnecessary trappings. Reorganization should take place by stages, it being made sure army capable make effective use equipment and training furnished at each stage.

6. I believe participation by Iran just now in regional security arrangements would not be advantageous to it and would not be in interest ME security. Nevertheless I think it would be preferable not to discourage Iran participation. Best course in my opinion would be for us take position countries of this area should be free to decide for themselves what cooperative measures, if any, they might advantageously take to promote regional security. I doubt that Iran after receiving such advice would be over-hasty in seeking to become party to Turk-Pakistan defense arrangements. On other hand, feeling that its participation would be welcome might prevent growth of resentment in Iran on ground that defense arrangements of its neighbors in which it not wanted might result in channelizing Soviet aggressive activities through Iran.

7. I assume NSC in referring to "contracts for military aid and training" (Deptel 1751, February 19) has in mind formal prolongation, with perhaps some amendments, of ARMISH and GENMISH agreements and that no additional military aid and training agreements are contemplated. Some advantage would undoubtedly be obtained from formalizing existing present informal and oral prolongation of these agreements. I do not believe, however, this is "appropriate time" to press this matter. Present government likely to

encounter difficulties in obtaining passage through untested new Majlis of number urgent measures, including (we hope) oil agreement, new currency and tax legislation, et cetera. We should not add to these difficulties by insisting that it submit matter military missions and aid to public debates which might degenerate into demagoguery embarrassing to government and to us. I might again mention to Shah and Prime Minister necessity that these contracts be formalized at appropriate time but I do not believe that in so doing I should hint that amount our military assistance might be influenced by such formalization. If this session Majlis acts on other matters in reasonable way government itself may well take up matter of formalization during next session. In meantime it seems to me Iran Government living up to its informal commitments in satisfactory manner.

8. In view foregoing I suggest I be permitted talk to Shah informally along following lines:

> US Government regrets delay in reply to questions which HIM put to me last autumn re future Iran Army. These questions however raised number problems which it was necessary for US Government to study and to discuss in some detail with UK Government. US and UK Governments are in agreement that Iranian armed forces should have capabilities beyond those maintaining internal security. HIM should, therefore, understand that in replying to these questions I am speaking only in behalf US Government; nevertheless what I say is believed also to represent in general views UK Government. HIM may care later, however, to discuss this matter direct with British Ambassador.
>
> (a) US view at highest level is that Iran should have armed forces which not only would be able effectively to assist in maintaining internal order but also would be capable of certain amount defensive action in case country should be attacked. Such armed forces should be modest in size; should be devoid of all unnecessary trappings; and should possess and prepare to utilize only such equipment as might be of practice, i.e., either for maintaining internal order or for defense against invasion. These armed forces should be of kind which would not place so great financial strain on country during years to come as seriously to retard development of Iran national economy. It is believed that with careful planning Iran should within a few years after oil settlement be able support without unduly burdening its national economy well-organized armed forces capable of slowing up advance across country of invading enemy. Such forces should be developed gradually, special care being taken not to develop them so hastily as to give rise to waste and confusion. Development should be by stages, it being made sure armed forces would be able to make effective use equipment and training furnished at each stage.
>
> (b) Although its materiel and funds limited and inadequate meet urgent needs throughout world, US prepared during its present fiscal year grant Iran certain additional military assistance for use in developing type of Iran forces envisaged. This assistance would

be in form of equipment and training. Amount and character of this additional assistance would be determined through conversations between appropriate US and Iran military personnel.

(c) It is of course impossible for US Government to make any definite commitments as to extent to which it would be able to furnish military assistance to Iran beyond present fiscal year since amounts available for expenditure for each US fiscal year are determined annually by Congress. Nevertheless, available funds from this year's appropriations, together with equipment already furnished should be sufficient to enable Iran make good beginning in direction of developing defensive capabilities in its armed forces.

(d) It is believed that attitude of Congress during future years with regard to extension of additional military aid to Iran will be influenced by number of factors, including developments in Middle East and South Asia as a whole; ability displayed by Iran to utilize with maximum effectiveness aid which had been extended; extent to which Iran by utilizing its own natural resources and strengthening its own economic and financial position demonstrates its ability to create a strong economy capable of supporting effective armed forces; willingness of Iran to maintain, so far as its financial and economic situation permits, its armed forces in high degree of efficiency; degree of cooperation extended by Iran to US Missions in Iran; degree of determination displayed by Iran to defend itself.

(e) US Government understands that Iran does not consider that it would strengthen security Iran or of Middle East or South Asia for Iran in present circumstances to enter into military cooperation with its neighbors. In US opinion Iran, like other countries in Middle East and South Asia, should be free to decide for itself kind of cooperative defense arrangements, if any, it might advantageously make with its neighbors. It quite possible that eventually kind and amount military assistance granted to countries this area US will be influenced by regional defense as well as by individual country defense considerations.

9. I do not know whether it would be necessary for Department to take matter up again with NSC before it could approve approach along lines suggested above to Shah. If it should be found necessary I hope it will do so. In my opinion it preferable postpone answer to Shah several more days if such postponement could result in approach less damaging to Iranian morale. Department will of course understand that Shah will not be happy even with kind of answer which I have suggested although his disappointment will be considerably less than if I make approach of kind suggested paragraph 2 Deptel 1798. I assume matter will be cleared with British. Ambassador Stevens and I have had number conversations re this difficult problem. He has been most helpful in letting me have UK point of view. I plan therefore, when I see him morning March 5, to discuss with him contents this telegram and read to him para-

graph 8 stressing that I do not know whether suggestions contained therein would be agreeable to US Government.

HENDERSON

No. 432

888.2553/3-454: Telegram

The Acting Secretary of State to the Embassy in the United Kingdom[1]

TOP SECRET PRIORITY WASHINGTON, March 4, 1954—8:38 p. m.

4533. Limit distribution.

1. In conversation with Beeley, British Embassy, today Hoover and Byroade made following points:

(a) We appreciate HMG attitude in accepting principle participation outlined *Aide-Memoire* (Deptel 4507 to London rpt 1812 Tehran[2]) which we feel will contribute markedly toward durable solution in Iran. We are in full agreement that shares in consortium should be 40% each AIOC and American companies with remaining 20% divided between French and Shell. Only remaining problem concerns latter division.

(b) We presume AIOC did not consult Foreign Office before giving French option for 8%. This most difficult for us to understand inasmuch as matter was under negotiation at government level and we had specifically raised serious question of wisdom of French participation over 5%. We always glad have French participate and only problem was determination realistic percentage. Decision has many ramifications seriously affecting all other participants.

(c) Primary concern has been find solution in best interests Iran and stability Middle East. Shell has outlets which handle many times that of French. Estimate comparative marketing volumes is ten to one. Option given French would establish ratio which we believe neither realistic nor in best interests Iran. We feel it could potentially cause unfortunate repercussions elsewhere in industry.

(d) We have grave doubts French able handle 8% Iranian oil in addition their large off-take from IPC. As result their surplus IPC oil and as indication stress French under in handling surplus, they already have endeavored force American marketing companies out of French West Africa on discriminatory basis and have given indications of attempt force these companies absorb French crude and refined products elsewhere in areas under French control. We believe it entirely possible French may take similar action against British companies. In absence realistic agreement on French participation we might feel it necessary seek assurances this matter in advance from French Government. Such action would undoubtedly involve considerable further delay which would be most unfortunate this time.

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[1] Repeated to Tehran. Drafted by Stutesman and signed by Byroade after being cleared with Hoover, Byroade, and Raynor.

[2] See footnote 2, *infra*.

(e) We cannot help but feel this was unilateral action not in spirit of way we have endeavored conduct negotiations up to now. It involves basic relationship as matter principle that goes beyond immediate problem amount French participation.

(f) We agree with HMG that composition consortium is not matter for negotiation with Iranians. We cannot help but be concerned over implication AIOC action which appears unilateral to us. We feel that unless we can have some assurance it will not be repeated on other matters that path ahead will be rough indeed and could in its extreme form prejudice entire concept of consortium.

2. Beeley stated he doubted Foreign Office realized how strong were US views re French participation but could not say to what extent AIOC had consulted Foreign Office before offering 8% option to French. He said he would find out precisely what were terms of option. We told him we had not made points in order obtain explanations but only make certain future course negotiations would be in spirit utmost cooperation.

3. Beeley was advised that formal reply British *Aide-Memoire* March 3 would soon be forthcoming along lines paragraph 1 (a) above[3] and stating while we continue feel that matter Shell and French participation should be settled prior to undertaking further negotiations in London, we nevertheless are prepared ask principals of American companies to go to London their earliest convenience. In doing so we are largely influenced by assurances of cooperation by HMG which we feel are implied by *Aide-Mémoire* March 3 and by conversations in Washington and London toward working out realistic participation between these two groups. Would appreciate any comments from London or Tehran.

4. Hoover presently planning depart this weekend for London and expects oil company principals will be gathering there by first of week.[4]

SMITH

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[3] See telegram 4547 to London, Mar. 5, *infra*.

[4] On Mar. 5 the Embassy in London reported to the Department that it had no special comments to make regarding telegram 4533; that the Foreign Office was gratified at the agreement regarding AIOC and American participation in a consortium; and that the composition of the consortium had to be determined in a fashion acceptable to all its members before the negotiating team left London for Tehran. The Embassy also reported that the Foreign Office confirmed that the AIOC had not consulted the Foreign Office before offering the 8 percent "option" to the French. (Telegram 3813, 888.2553/3-554)

No. 433

888.2553/3-554: Telegram

The Acting Secretary of State to the Embassy in the United Kingdom[1]

TOP SECRET WASHINGTON, March 5, 1954—4:40 p. m.

4547. Limited distribution. Following *aide-mémoire* handed British Embassy representative March 5:

"Department State appreciative of British Embassy *aide-mémoire* of March 3 handed to Assistant Secretary Byroade by Mr. Beeley,[2] by which it informed that British Government accepts principle of equal participation by AIOC and American companies at level of 40% each. US Government believes this division should contribute markedly toward reaching solution with Iranian authorities which will prove durable. US Government is therefore in full agreement that shares in consortium should be 40% each to AIOC and to US companies with remaining 20% to be divided between French and Shell interests.

2. As to division of 20% portion between those interests, US Government remains of opinion expressed in its *aide-mémoire* given to Sir Roger Makins on February 25 to effect that percentage over 5% for French interests would be excessive, although this Government has always felt that French should be given realistic participation. Reasons for US position as to size of French participation, which are held strongly by US companies and subscribed to by Government, were elaborated orally in some detail yesterday.

3. US Government also continues to feel that settlement of question of Shell and French participation should be reached at Government level prior to further inter-company negotiations in London. Nevertheless, US Government prepared urge principals of American companies go to London at their earliest convenience. In taking this step US Government largely influenced by assurances of cooperation of British Government, which implied in British Embassy's *aide-mémoire* of March 3 and in conversations both in Washington and London, toward working out realistic participation between these two groups. Hoover will also be prepared go London same time.

4. US Government has noted assumption of British Government that US Government will support position that composition of consortium, formed on basis of 40% participation for each of AIOC and American companies, is not matter for negotiation with Persian Government. US Government has held, as indicated in paragraph 2b of its *aide-mémoire* of February 19 that percentages of participation should be agreed before definitive negotiations begin with Ira-

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[1] Repeated to Tehran. Drafted and signed by Richards and approved in draft by Hoover.

[2] The text of this *aide-mémoire* was transmitted to London in telegram 4507, Mar. 3. (888.2553/3-354)

nian Government and, therefore, confirms correctness of this assumption."

Reurtel 3813[3] British Embassy representative made following points: (1) agreed composition of consortium, including participation Shell and French, must be determined prior conversations with Iranians, (2) British Government "will cooperate as necessary to steer toward" suitable composition of consortium, and (3) expressed satisfaction US company principals and Hoover proceeding London.[4]

SMITH

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[3] See footnote 4, *supra*.

[4] On Mar. 9 the Embassy in London informed the Department that the American company principals had held a preliminary meeting with British working-level officials prior to the first conference meeting scheduled that afternoon. The attitude of all concerned, Hoover reported, was constructive and cooperative. (Telegram 3878; 888.2553/3-954)

No. 434

788.00/3–854: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET PRIORITY TEHRAN, March 8, 1954—6 p. m.

1897. 1. At suggestion Ala, Minister Court, I had audience with Shah evening March 6. Ala also asked me come early for preliminary chat with him. Ala said Shah extremely worried over future security Iran and would talk with me primarily re (a) possible effect on Iran of proposed Turkish-Pakistani regional defense arrangements and (b) future of Iranian armed forces. Shah concerned at reports coming to him to effect that US and UK had decided it would be useless to endeavor strengthen, or even maintain at present strength, Iranian army; that decision had been made that Iran so weak politically, economically, morally and militarily that efforts to assist Iran in maintaining its independence in case of Soviet aggression would be too costly for results received; that Iran therefore was no longer within area, maintenance of which vital of free world. Ala said *Le Monde*, generally well informed Paris newspaper, had recently published article defense Iran no longer contemplated by Western allies. He added Iranian circles at first had welcomed Turkish-Pakistani move as evidence increased interest on part US in defense this region. They had hoped US would assist

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[1] Transmitted in three sections; repeated to London and pouched to Ankara, New Delhi, and Karachi.

Iran defense sufficient military strength to enable it eventually to join regional defense arrangements including Iran's neighbors. Belief now growing however that no intention include Iran; that only defense Iran would be perhaps action Turkish troops to defend certain portions of Iranian Azebaijan, Iranian and Pakistani troops to occupy Iranian Baluchistan, and troops some character endeavor to defend Khuzistan and to try prevent Soviet troops from reaching Persian Gulf. Net results such arrangement would be disappearance Iran as independent country. Failure US respond to enquiries made by Shah several months ago re whether US considered Iran's armed forces should be capable of delaying defense action tended to confirm fears of Shah that US determination to support political independence and territorial integrity Iran had weakened.

2. I said I sorry hear that Shah and other Iranian leaders again beginning to doubt determination leaders free world to support independence and territorial integrity Iran. Determination US in this respect had been demonstrated consistently over so many years it should not be lightly subjected to doubt. I could understand however how Iran, in view of its geographical position and of well-known Soviet covetousness of Iranian territory, should watch with anxiety any international development which might affect its security. In US opinion understanding re defense between Pakistan and Turkey should strengthen security of whole Middle East, including Iran. US position in this regard was being set forth very ably on March 7 by Mr. Jernegan,[2] Deputy Assistant Secretary of State for NEA, who particularly well acquainted with circumstances surrounding Pakistani-Turkish conversations and with US policies affecting security this area. Jernegan in referring to these conversations was stating:

> "US warmly welcomed this development. It seemed to us this step would provide increased assurance that these two countries and others in area would be better able to keep their independence. Moreover, it was evidence that need for collective security in Middle East was being realized by states of area themselves, as Mr. Dulles had said it must be."

I said I understood Foreign Minister of Turkey in explaining nature proposed agreement had stated:

"Treaty in question will be open to interested peaceful states. It will not and cannot be directed against any country of goodwill."

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[2] For text of Jernegan's speech of Mar. 7, see Department of State *Bulletin*, Mar. 22, 1954, p. 444.

Furthermore Assistant Secretary Byroade in a speech delivered March 5 in referring to "tightening of bonds between Turkey and Pakistan" had stated:

> "We hope that other nations will see attraction in this move sponsored by two powers flanking Middle East. I do not believe this to be forlorn hope. Other nations in Middle East I am confident will recognize the purely defensive nature of the arrangement. Such developments must come by will of nations themselves although our interest in such trend would be great."[3]

I added that I would make available to Shah and Ala such excerpts from these speeches as were available.

4. [*sic*] Ala said such statements would of course be encouraging to Shah. If only US, Turkey or Pakistan had suggested to Iran that it might associate itself with such regional arrangements as were being planned, even though it known in advance Iran not position become party, Iran would not have felt itself so isolated. I replied that spokesmen for Iran had already informally made it clear it not in position enter into such arrangement at the present time and had even intimated that in present circumstances the less said re Iran as immediate or eventual participation the better. Iran's position this respect understood by US and I thought, by Pakistan and Turkey, although I no authority speak for these two countries.

5. I told Ala Shah should not feel disturbed at US delay in replying his enquiries re future Iranian army. Much study and detailed consultation required before such important questions could be answered. Delay not due lack US interest in defense Iran. I position know this matter had been active interest US Government. Decisions re nature US reply however could be taken only after consideration numerous international and domestic political, military and economic factors.

6. During my audience Shah expressed concern re Iran's security position and future of Iranian armed forces in language similar that used by Ala and I responded as I had to Ala. Shah said he failed understand how defense arrangements between Turkey and Pakistan not including Iran could be useful unless it was already assumed that Iran would be lost and that therefore Iran's neighbors racked [*backed*?] by West were merely to work together to keep aggressors contained within borders Iran. More than 2000 kilometers separated Turkey from Pakistan by land and several times that number by sea. Iran which lay between these two countries must be keystone arch of defense unless another arch was to be created south of Iran. I told Shah he not acquainted with kind de-

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[3] For text of Byroade's speech of Mar. 5, see Department of State *Bulletin*, Mar. 22, 1954, p. 438.

fense arrangements Turkey and Pakistan might be contemplating. Nevertheless I convinced these two countries just as interested as US in maintenance in defense at Iran. Loss any portion of Iran to international communism would certainly be blow to security of whole area including Turkey and Pakistan.

7. Shah spent considerable time urging US give consideration his suggestions re future Iranian armed forces. He not asking for elaborate, expensive army. He thought that armed forces no larger than 150,000 required. He had already discussed plans in some detail with General McClure. He confident Iranian terrain of character which could permit army he envisaged to hold back invading Soviet forces for considerable period. Iranian armed forces should be of kind which would cause Soviet Union to understand it could not take over country by force without severe fighting and cause Iranian people to feel Iran not entirely defenseless. If Iranian armed forces were to be able contribute to defense area they should be reorganized and re-equipped and certain military establishments including arsenals should be removed from Tehran to points less vulnerable to air attack. I told Shah it my understanding appropriate officials US Government had been giving careful study to his suggestions. I imagined these officials must give consideration number factors, including amount additional equipment and training Iranian armed forces able absorb at given time; extent to which Iranian budget might be able support army this kind; and availability in US of required equipment. Shah said he could not understand why US inclined treat Iran as stepchild. When US made decision in 1947 support free world against aggressive international communism it gave generous military assistance to Greece, Turkey and countries of Western Europe; it lost no time in responding to Pakistan's request for aid. It always however slow give consideration to Iran's requests. I reminded Shah that during last three years US had given Iran considerable military aid. Little question that certain amount such aid would be continued. It not so easy however decide on type, amount, and purpose such equipment.

8. Shah said he wondered if US policy makers fully appreciated present difficult position Iran. Without additional US financial assistance and in absence oil revenue Iranian budget would soon be completely out of balance. Even with exercise strict economy income not likely represent more than 60% expenditures. Government unable make plans for government operations for more than month or two in advance. Even if oil settlement achieved no certainty immediate revenues from oil for budgetary purposes. No country could maintain economic stability or plan its economic development in such situation. What in opinion US Government should Iran do in such circumstances? Could Iran have any assur-

ance US would come to its rescue if it should find itself on eve bankruptcy?

9. I told Shah I not in position give him any advice on behalf US Government. I did not believe however in view temper present Congress that US Government would ask that funds be appropriated for continued budgetary assistance to Iran. Congress and US public had never looked with favor upon US granting budgetary support to any country except in times of exceptional emergency. It was considered unhealthy from point view US and any other country for latter to become budgetarily dependent on US. Shah said it possible there would be financial emergency in Iran within several months as serious as that of last August. I said that in my opinion Government of Iran should begin preparing itself now to prevent development such emergency. Certain rather drastic measures might be necessary. Shah replied present government would have to establish itself more strongly and obtain wider degree of popular support of population before it could undertake drastic measures of kind which might create more unemployment and entail greater economic hardships.

HENDERSON

No. 435

788.5/3-954: Telegram

The Acting Secretary of State to the Embassy in Tehran[1]

TOP SECRET PRIORITY WASHINGTON, March 9, 1954—11:07 a.m.

1838. Department does not suggest (reurtel 1872 rptd London 570[2]) you utilize memorandum in para 2 Deptel 1798, rptd London 4454,[3] as basis your presentation to Shah. We had in mind that you would formulate your own presentation substantively along lines Deptel 1751,[4] and it seems to Department you have done this admirably as outlined in para 8 urtel 1872. British have advised us they do not wish to ask for any further amendments to memorandum of understanding. We do not consider your presentation differs substantively from understanding with British, but, in view concern that Shah might obtain impression US-UK views at variance, you might wish inform British Ambassador before approaching Shah. If, in your discussions with Stevens it appears there may be important differences which will become apparent there, inform Department and put off appointment with Shah. We will then attempt obtain from British reaffirmed agreement on policy and presentation.

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[1] Repeated to London. Drafted by Byroade and Stutesman and signed by Byroade.

[2] Document 431.

[3] Document 430.

[4] Document 427.

Your proposed presentation (para 8, urtel 1872) does not appear require additional NSC action as it appears in consonance with spirit and intent established NSC policy which clearly states desirability encouraging Iran to move towards regional defense cooperation with her neighbors. It is matter of implementation for us to secure this result when we can, but not to push for such a solution until we feel it is possible of attainment and can be obtained under conditions to make it a durable long-term arrangement.

Background on memorandum informally agreed with British may be helpful. When Department formulated Deptel 1751, copy of actual message was not shown British. We made up instead a summary which was subject some misunderstanding Foreign Office. Most of delay in talking with British has been due their misconception that it was our intention press Iran for immediate association with the Turkish-Pakistan arrangements. This was not our intention and memorandum (Deptel 1798) was re-write of Summary Deptel 1751 in order make this point more clear. We did not consider memorandum in Deptel 1798 needed alter your presentation to Shah based upon earlier instructions Deptel 1751 but desired you to have copy.

We appreciate force of fundamental questions raised paras 5 and 6 urtel 1872 but do not believe we need attempt obtain final answers to them at this moment. We consider existing NSC policy provides sufficient foundation to proceed as suggested your para 8. We will, of course, continue have in mind important points you have raised.

For your information we see only two possible points of difference with British. In first place, we believe their opinion of future potential defensive capabilities of Iranian armed forces is less than our own. Secondly, they have not as yet made a decision whether they wish to see Iran join the Turkey-Pakistan arrangements. We believe their difficulty is influenced by first point mentioned above but more importantly by their concern lest they be drawn into request for formal security guarantee of Iran's borders. We must bear in mind their position somewhat different from US in Middle East. UK now has treaty commitments with Jordan and Iraq, as well as Commonwealth obligations to Pakistan. US contemplates no formal treaty relationships within area which would involve question of so-called "security guarantee". British fear if Iran moves forward in defensive matters and arrangements it might be awkward for them not to extend treaty commitments to Iran similar to those they already have elsewhere in ME. This they are reluctant to consider in absence greater capability in Iran herself.

Seems to us futile to attempt urge British make early decision as to their eventual attitude towards Iran's entry into security arrangements when we and they both in agreement that Iran would not, and probably could not in present day situation, face up to this action herself. On other hand, if things go well we would hope to persuade British to our point of view by time Iran could in fact take this step.

Agree with your analysis re formalization and prolongation of military mission agreements contained para 7 ur reftel.

Having regard for above considerations, you may proceed, in your discretion, inform Shah of broad US-UK agreement re future Iranian armed forces and additional US military aid substantively along lines Deptel 1751, as elaborated para 8 urtel 1872.

SMITH

No. 436

888.2553/3-1754: Telegram

The Secretary of State to the Embassy in the United Kingdom[1]

TOP SECRET NIACT WASHINGTON, March 17, 1954—12:07 p. m.

4773. Limited distribution. Following communicated to Makins today by Secretary:

1. We are deeply troubled by reports from London indicating that discussions between oil companies regarding the establishment of a consortium to produce and market Iranian oil have reached a stalemate over the questions of financial participation and compensation to the AIOC.[2] We are very disappointed that our joint efforts to resolve the Iranian problem now appear to be obstructed by a totally unrealistic attitude on the part of the AIOC. It is particularly serious that this obstruction has arisen at a time when, as a result of the establishment of a reasonable successor to Mosadeq, there exists in Iran the most favorable atmosphere apparent in the past three years or foreseeable in the future for an early settlement of the oil dispute.

2. Sir William Fraser's proposals that Iran should pay compensation to the AIOC in the amount of 110 million tons of free oil,

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[1] Also sent to Tehran. Drafted by Stutesman and Jernegan and approved by Under Secretary Smith. Copies were distributed to Treasury for Secretary Humphrey and to Defense for Deputy Secretary Anderson.

[2] Reported in telegram 3986 from London, Mar. 16. (888.2553/3-1654)

valued at present prices at $1.460 billion, over a 20-year period, and that members of the international consortium should proportionately pay the equivalent of $1.270 billion (stated on a 100 percent basis) are utterly unrealistic in the light of political conditions in Iran and international commercial considerations.[3] We are particularly surprised at the nature of the proposals because we had often previously inquired concerning the AIOC's ideas on compensation. Although we never received any specific information on this subject, we had not expected that AIOC thinking would be so insensitive to the facts of the present situation. We believe that such proposals would be completely unacceptable to any Iranian Government. Evidently they are unacceptable to the American oil companies.

3. We do not feel that we can urge the American oil companies to reconsider their view of the AIOC proposals or to refrain from breaking off negotiations, as is their present intention, unless there is a drastic change in Fraser's attitude. Such a development would undoubtedly have very serious repercussions in Iran and would force us to reconsider our whole attitude toward the Iranian oil question since it would appear impossible ever to obtain a reasonable solution to the Anglo-Iranian oil dispute in the face of such obstacles. It might ultimately force us, with great reluctance, to review the whole scope of our Middle East relationships.

DULLES

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[3] The Department informed the Embassy on Mar. 17 that the figures "$1.460 billion" and "$1.270 billion" should read "$1,460 million" and "$1,270 million". (Telegram 4776 to London, 888.2553/3-1754)

No. 437

888.2553/3-1754: Telegram

The Ambassador in the United Kingdom (Aldrich) to the Department of State[1]

SECRET PRIORITY LONDON, March 17, 1954—1 p. m.

3992. From Hoover. Limited distribution. American group delivered to AIOC this morning reply to Fraser's memorandum of March 14 (Embtel 3964 to Department 169 to Tehran).[2]

Following is summary:

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[1] Repeated to Tehran and to Paris.

[2] Not printed. (888.2553/3-1554)

1. AIOC and American groups respective proposals of March 12 differ in following respects:

a. AIOC wants other participants to pay pounds 280 million for 60 percent interest in consortium, whereas American group believes pounds 171 million would be fair 60 percent value.

b. AIOC wants from Iran compensation pounds 530 million, whereas American group believes under proposed arrangements AIOC not entitled compensation for future profits.

c. AIOC wishes receive compensation from Iran in form of free oil. Aside from question whether compensation is for future or past, American group strongly opposes principle of compensation in this form.

2. Memorandum cites favorable comparison proposed transaction with previous purchase by US companies of forty percent interest in ARAMCO. Under much more advantageous conditions surrounding that purchase, including fact oil was then in short supply, amount being offered by companies to AIOC is comparable taking into consideration difference physical conditions in the two countries. After reviewing AIOC proposal for compensation (both from consortium and Iran) totaling pounds one billion, memorandum concludes figures are unrealistic and do not appear to have any commercial basis.

3. Memorandum cites facts consortium not proposing enter established and going enterprise in stable and convenient area; that American group proposing participate only at request US Government and primarily for purpose assisting Iran improve and stabilize its economy. Nevertheless, despite adverse factors, group has proposed payments to AIOC based on full commercial value of latter's rights as if its concession in Iran were still in operation and had been modified to accord with other major oil agreements throughout world. Group considers suggestion of March 12 was generous one, as it was meant to be.

4. As stated by AIOC, method proposed for payment to AIOC was payment by consortium. Re AIOC's comment that this means they would pay themselves to extent of forty percent, since AIOC will retain forty percent interest in consortium companies do not see who else they could pay. Re remaining sixty percent, other participants would not ask Iran pay half through amortization or otherwise; their charges to expense in accounting to Iran would not raise their costs above those in similar enterprises in neighboring countries, so that Iran would profit from its oil to as great a degree as its neighbors profit from their oil.

5. Re AIOC's proposal that it receive compensation from Iran, memorandum establishes position Iran cannot justifiably be asked compensate for loss of future profits if arrangement concluded on

fifty-fifty basis. Insofar as AIOC proposal intended obtain compensation for loss of future profits, group considers proposal would be paramount to being asked to be paid twice, once by consortium and once by Iran. Group believes damages and counterclaims re losses suffered in past three years, and re loss "internal consumption facilities" which consortium would not take over, are for Iran and AIOC to negotiate at the time Iran's arrangements with consortium negotiated. Only interest of American group this connection is in ascertaining that amount to be paid by Iran is not unreasonable so as to jeopardize stability of consortium's arrangements with Iran. Payments of such compensation should be made out of Iran's receipts of royalties and income tax, and should not be in form of "free oil" of kind suggested by AIOC.

6. Memorandum dwells at some length on groups opposition to receipt by AIOC of free oil from Iran. Group believes this would violate fundamental principle that any settlement must not adversely affect existing oil production concessions in other countries. AIOC's proposal would violate fifty-fifty arrangements existing elsewhere, since it would mean that Iran would be retaining for its own account a percentage of the oil produced each year until a total of 110 million tons is reached, in order turn over that oil as compensation to AIOC.

7. Memorandum concludes with statement no settlement Iran is worth making unless it provides sound and permanent basis for good relationships between Iran and proposed consortium. Free oil proposal does not meet this text because it would mean that Iran would be paying compensation for a loss for which AIOC would already have received effective compensation. Accordingly, proposal might well endanger negotiations with Iran. In an unlikely case that it did not, it might jeopardize sound and permanent basis for continued good relations with Iran. Differences between market price of oil and free oil given to AIOC would provide excellent propaganda for those in Iran who might wish make use of it. Any such result would be to disadvantage not only of AIOC but also of other members consortium.

End summary.

8. Copy of above memorandum has been given to Foreign Office at urgent request of Eden for his use in connection his meeting this morning with Fraser.

9. Shell representatives have submitted to AIOC separate memorandum setting forth position similar to that of American group. Memorandum notes with respect to total amount of money which AIOC asked from consortium leaving aside value of compensation—namely pounds 430 million—that market value of issued or-

dinary shares of AIOC in 1948 before threat of nationalization was pounds 183,750,00, and today is pounds 207,668,00.

ALDRICH

No. 438

888.2553/3-1854 Telegram

The Ambassador in the United Kingdom (Aldrich) to the Department of State[1]

TOP SECRET PRIORITY LONDON, March 18, 1954—4 p. m.

4015. Limited distribution. From Hoover.

1. Butterworth and I attended meeting afternoon March 17 requested by Caccia, Armstrong and Maud (Foreign Office, Treasury and Fuel and Power respectively).

2. They stated Eden had long interview with Fraser that morning but vouchsafed little specific information on outcome except that Fraser (a) agreed to have company principals attend meeting primarily for appearances sake later in day and (b) stated he would require day or two further to analyze and answer American group's memorandum delivered to him that morning (summary sent Department Embtel 3992[2]). (Understand later in evening March 17 Eden advised Ambassador that Fraser had been told negotiations must not be broken off without consent of HMG.)

3. Caccia and Maud stated that HMG were in accord with principles outlined in American group memorandum, namely (a) that if consortium able obtain type of operating agreement referred to, then AIOC should have no claim to compensation for future profits from Iran, (b) compensation for past damages sustained by AIOC, less justifiable counterclaims by Iran, should be held to some realistic level, and (c) negotiations within consortium should proceed on basis of a commercial deal. They felt that limits within which consortium should negotiate would be figure of 1270 million dollars proposed by AIOC (stated on 100 percent basis) on high side and 800 million proposed by American group on low side. They stated Fraser probably unprepared negotiate on such basis that afternoon meeting, but indicated he would do so later.

4. We stated that this was encouraging development, and felt sure other groups ready to talk whenever AIOC requested them do so.

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[1] Repeated to Paris and Tehran.

[2] *Supra.*

5. We pointed out further that negotiation of satisfactory contract with Iran would be determining factor in whether or not Iran would have to pay compensation for future profits and therefore negotiations for such contract should precede any discussions re compensation. In other words, Iranians should be advised that amount of compensation largely dependent upon nature of deal that could be worked out. They agreed, and again we feel this to be constructive step forward, as we concerned possibility AIOC might jeopardize entire negotiations by first presenting unrealistic claims for compensation.

6. In *re* French participation matter, Armstrong advised that HMG had again told French that operations must be in sterling, otherwise all other participants would request same relative advantage of discharging obligations in other currencies. He assured us HMG would adhere strongly to this position and believed French problem would probably straighten itself out if not pressed too hard at this time.

7. One of most difficult problems in these negotiations is that Fraser's accounts of his actions to HMG seem often at variance with what actually takes place in inter-company meetings. HMG obviously under great difficulties in dealing with him and apparently becoming increasingly more restive as delay increases. We endeavoring maintain cooperative and understanding attitude with HMG to avoid at all costs pushing HMG and AIOC back into same corner together again, yet at same time keep up maximum pressure for action on realistic basis.

8. Informal meeting scheduled for morning March 18 between Harden representing American and Shell group, and Fraser of AIOC, while full meeting planned between company principals and AIOC in afternoon. Butterworth and I will continue discussions with Caccia and Maud.

ALDRICH

No. 439

[illegible] Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

TOP SECRET PRIORITY TEHRAN, March 18, 1954—8 p. m

1972. Limited distribution.

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[1] Transmitted in two sections; repeated to London.

1. I presented Admirals Wright and Beecher to Shah on March 10. Before audience we spent half hour with Minister Court Ala. Both Shah and Ala devoted considerable time to discussing importance that Iran begin at once systematically develop armed forces capable defensive action. Both also touched on Iran's attitude toward defense cooperation with its neighbors.

2. For more than hour Shah outlined his hopes for Iranian army stressing his conviction that relatively small Iranian army properly equipped, trained and handled could not only delay enemy advance across country but with aid of military equipment received through Iraq could defend certain portion of country almost indefinitely provided it not compelled face certain new types atomic and other deadly weapons. He thought even atomic bombs might not be too effective in mountain fighting. He pointed out on map certain passes which could be held, certain deserts and rugged areas which it would be difficult for enemy traverse, and places to which Iranian army could retreat and could hold against vastly superior numbers. He argued Iranian soldiers were tough, accustomed to hardship, inherently religious, and patriotic. He maintained officers anxious learn and intelligent. New era would be opened to Iran if hope could be instilled into Iranian people that they could eventually have armed forces capable of defending country with honor. He said he somewhat concerned at delay in receiving answer to questions put to me several months ago as to whether or not US considered it worthwhile for Iran to develop army with defensive capacity.

3. Then referring to Turkish-Pakistani defense cooperation Shah as in previous conversations expressed opinion that any kind such cooperation between Pakistan and Turkey which did not include Iran "really made no sense". Iran must be keystone any plan for defense Middle East and South Asia. Defense Pakistan and Turkey could not be more than extensions of defense Iran. Iran realized value regional defense arrangements. Useless, however, for it to enter into them until it had armed forces capable contributing defense area. Iran's honor would not permit it enter into any kind of mutual defense arrangements to which its contribution would be merely territory on which forces its neighbors would fight invading armies. Iranians, not Turks, Pakistanis or Iraqis, should bear primary responsibility for defending Iran. Shah admitted that Iranian armed forces armed and equipped as he envisioned could not long defend any areas of country without receipts of ammunition and other supplies through Iraq or through Persian Gulf. It important, therefore, that capabilities Iranian armed forces be developed as rapidly as possible so that Iran in minimum period of time could begin conversations re mutual defense with its neighbors. Ala went

somewhat further in this regard than Shah. He said if it clear Iranian army to have defense capabilities in not distant future it might be advantageous for Iran to begin informal secret defense talks "immediately" with its neighbors. Too early to enter into formal defense arrangements but not for secret exploratory talks. Shah said it necessary: "That we know something of our neighbors plans—what areas they contemplate holding and to what areas they plan to retreat so that we can coordinate our movements with theirs. We should know what transport facilities they might have for getting supplies to us in case of aggression, etc.". Both Shah and Ala urged Admiral Wright to do his utmost to impress upon appropriate American authorities fact that one of most effective and inexpensive methods of strengthening defense free world would be to assist in developing Iranian army capable defensive actions so that Iran could play appropriate role in regional defense. At one point during conversation Shah again expressed concern lest it intention US and neighbors Iran not to give consideration to Iranian armed forces as factor in future plans for defense of area. Admiral Wright was careful not to make any commitments. He merely played role of sympathetic auditor.

4. On evening March 10 I told British Ambassador I had received instructions from Washington (see Deptel 1838 March 9 to London 4601) authorizing me give reply to Shah long lines paragraph 8 Embtel to Department 1872 to London 570,[2] but suggesting I talk with him before doing so. Ambassador suggested I postpone approach to Shah until he had received further instructions from London. He had already asked London for comment on paragraph 8 Embtel 1872. It might be preferable for him and me see London comment before I talked to Shah. On March 13 Ambassador informed me he had received telegram from London indicating British Government had no opposition my approach Shah along lines paragraph 8.

5. On March 17 I gave Shah long awaited reply to his questions. To prevent later misunderstanding I prepared reply in writing on basis paragraph 8. Without departing from sense that paragraph I expanded its terminology somewhat in order cushion impact. I told Shah document which I was about to read aloud to him was paraphrase of Washington reply. Shah listened attentively and then asked to read it himself. He went through it word by word asking many questions. For instance he wanted to know what was meant by "modest army", by "unnecessary trappings". He asked whether US would be willing to give Iran assistance for economic and technical development so that Iranian national economy would more

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[2] Document 431.

quickly be able support army capable of defensive action. He asked whether Turkish national economy was at present capable supporting Turkish armed forces and whether US considered Iran less worthy of military assistance than Turkey. What should he do next? Through what channels should conversations take place for purpose determining amount and character of additional assistance? I told him I not prepared or qualified enter into technical discussions Iranian defense. It would not therefore be helpful for me endeavor undertake interpret answers I had conveyed to him. Logical course would be for Iranian Chief Staff and General McClure continue and broaden discussions re future Iranian army which I understood had already been initiated by Chief Staff. Shah said he thought it would be preferable that he personally talk with General McClure at early date. If he and General should reach certain agreements did I think General's recommendations would be accepted by highest US defense authorities? I said General McClure had great prestige with US defense planners. Nevertheless Shah should bear in mind that Washington in making decisions must give consideration not only to recommendations coming from Tehran but to defense needs other areas, and to internal, political, economic and military factors in US. I sure recommendations made by General McClure or myself would be given sympathetic consideration in Washington but they might not be accepted—particularly in full. Neither General McClure nor I were policy makers. Our role was to make recommendations based on our knowledge of conditions here in light of what we understood US policies to be. Shah said he hoped our conversation would be beginning renaissance for Iran; that Iran would become self respecting country with enough confidence in its future to encourage it to develop its economy, to play appropriate political and economic role in world, and to overcome inferiority complex which had plagued and weakened it for so many years.[3]

6. Shah asked if he could keep copy document which I had read to him. I agreed, pointing out that it merely transcript of oral statement. I asked however if he had suitable place to keep document such high classification. He decided eventually he would not keep copy but I would let him see it whenever he desired. Copy this

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[3] On Apr. 2 Ambassador Henderson reported that, as a result of his statements made to the Shah in paragraph 5 of telegram 1972, General McClure saw the Shah at the Shah's request on Mar. 29. Once again, the Shah said that Iran had to join the Turkish-Pakistani pact, but that Iran also had to have some military capacity before beginning discussions. The Shah then proceeded to present a shopping list of equipment he deemed necessary to have immediately to give the Iranian Army combat effectiveness. General McClure was noncommittal in his response, but did bring to the Shah's attention certain deficiencies in Iran's armed forces. (Telegram 2041; 788.5/4-254)

document being pouched to Department.[4] I have given copy British Ambassador.

7. Shah told me he would mention matter to British Ambassador with whom he expected have conversation afternoon March 18.

HENDERSON

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[4] Ambassador Henderson pouched the text of this document to the Department in despatch 618, Mar. 18. (788.5/3-1854)

No. 440

888.2553/3-1854 Telegram

The Ambassador in the United Kingdom (Aldrich) to the Department of State[1]

SECRET PRIORITY LONDON, March 18, 1954—9 p. m.

4024. Limited distribution. From Hoover.

1. At Foreign Office meeting this afternoon Butterworth and I met Caccia and HMG group for several hours. They proposed, in effect, that we and they try work out tentative formula for phase of negotiations relating to compensation from Iran, thereby helping break deadlock with Fraser.[2]

2. Tentative formula, as set forth by HMG, as follows:

(a) In addition to considerations and payments to AIOC from other members of consortium, there should be reasonable sum payable by Persian Government to AIOC in respect loss and damage arising directly or indirectly out of events of 1951 upon coming into force of consortium agreement;

(b) That this sum should form an integral part of any final settlement with Persian Government;

(c) Assuming that Persian Government will agree to acceptable commercial arrangement with consortium (on 50-50 basis) a net sum in range of 280 million dollars nominal value, payable out of oil income over period of 20 years, at rate of 5 cents per barrel, is regarded as not unreasonable. By "net" is meant after consideration of claims and counterclaims. This sum is to include payment for internal distribution facilities, the Kermanshah refinery and Naft-I-Shah oilfield.

(d) Foregoing proposals do not refer to compensation for assets nationalized by Persian Government (apart from those mentioned in (c) above) or to compensation for future profits since it assumed that these will be adequately covered by conclusion of acceptable commercial agreement referred to above.

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[1] Sent to Tehran as telegram 176 and repeated to Paris and the Department.

[2] Hoover had reported from London earlier that day regarding a meeting between Harden and Fraser of AIOC resulting in no progress. Hoover also reported, however, that he was impressed that the British Government was working earnestly at the highest levels to end the deadlock, and that he was describing his meeting with the Caccia group later that day in a subsequent telegram. (Telegram 4022; 888.2553/3-1854)

3. US companies, Shell and HMG are most anxious about effect of nationalization on operations elsewhere in world if price tag of 280 million dollars, on easy terms, is placed on former AIOC enterprise, and also worried at some future date Iran might feel that having paid for the property it was, in effect, entitled re-nationalize again. They therefore most desirous that this payment not be labeled as compensation, but instead should be specifically regarded as for "loss and damage" as set forth in 2(c) above.

4. HMG most insistent that some such payment as above must be included in Iranian solution. Question therefore becomes (1) what is probable maximum amount that Iran could pay, on terms outlined above, and (2) what label can be placed upon it.

5. Rountree's feeling is that we should go as far as practicable in meeting obviously difficult problem for HMG; nevertheless, he has expressed to me concern that you may consider proposal in its present form would be unacceptable to Iranian Government. His reasons upon which we would also appreciate your comments, are the following:

(a) While Iranian Government apparently prepared and in fact wishes pay reasonable compensation (net of counterclaims) pursuant existing authority in nine-point law, suggestion that payment be made not as compensation for properties nationalized (except internal distribution facilities) but for AIOC's financial losses would raise, in addition other questions, legal point of whether Government has authority to do so without legislative action.

(b) Even though it might be possible convince Iranian legislature and public that sum mentioned, i.e., 280 million dollars, would not be unreasonable compensation for properties nationalized, it appears doubtful they would accept such a large payment for financial losses to AIOC which is regarded to have thrived during period of economic crisis in Iran.

(c) There is doubt that even as true compensation the sum of 280 million dollars net of Iranian counterclaims could be made acceptable; however, this may be within the realm of possibility.

6. HMG forwarding above proposal to Ambassador Stevens Tehran for his comments. Suggest you may wish confer with him because great advantage having agreed view if possible. Would appreciate your comments soonest convenient, also Department's views.[3]

ALDRICH

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[3] In telegram 4846 to London, Mar. 19, the Department gave general approval, stating that the outline of the formula seemed "not too unreasonable." (888.2553/3-1854)

No. 441

888.2553/3-2054: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET PRIORITY TEHRAN, March 20, 1954—noon.

1977. Limited distribution.

1. If it would dare do so Iran Government my opinion could as a strictly legal matter within framework nationalization law agree pay compensation AIOC for latter's financial lapses between date nationalization and effective date oil settlement (London telegram 176, March 18 to Department 4024). Nationalization law authorizes Government set aside 25 percent net current oil revenues as security for "certain claims" which company may raise against Iran. I doubt, however, Government would dare agree pay compensation AIOC for such losses in connection any agreement which fails to give full satisfaction to Iran national aspirations re oil, that is, agreement which would not permit Iran have complete control over production and refining its oil and full freedom sell oil where it pleases on terms to be determined by it. . . . I believe Iranian public has been educated during last six months re realities situation to such extent it will accept—although with feelings deep humiliation—agreement which in effect leaves Iran oil industry in hands foreigners provided Iran will not also be called upon to pay any appreciable amount compensation and provided its position in future will be no less favorable than that other oil producing countries Middle East re amount oil sold abroad and revenues to be received per barrel from such sales. (See, however, paragraph 4.) In my opinion Iranian leaders have for most part become reconciled . . . so far as control industry concerned (provided formulas found permitting them argue that nationalization had actually been put into effect) because they have become convinced that it is only reasonable that consortium which undertakes market bulk Iranian oil must have sufficient control production facilities to assure itself steady flow oil.

Iranians leaders have been hoping, however, that in making acceptable to Iranian public agreement which again gives foreigners right produce and sell Iranian oil on approximately 50-50 basis over long period of time they can point out that (a) problem compensation being taken care of by internal arrangements among members consortium, and (b) Iran will be put in no less favorable position than other countries of the Middle East which have not nationalized their oil. Government would be placed in extremely vulnerable position, however, if in addition to giving foreigners right to control production and sale Iranian oil it should also agree pay compensation or to receive less per barrel for its oil than other Middle East countries. Iran Government leaders and Iran public would be sure to regard demand for compensation for damages suffered by AIOC during last three years as being advanced either (a) to enrich coffers AIOC at expense Iran, or (b) as punitive measure which would further humiliate Iran in eyes of world. Demand this kind which Iran would consider unnecessary, if not vindictive, certain to arouse deep resentment. It might lead to complete breakdown negotiations. It would give valuable ammunition to those forces determined keep West out of Iran. Even assuming full validity AIOC claims, I believe advantages to be gained by AIOC in putting forth demand this kind would be more than offset by disadvantages which would accrue both immediately and in future.

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[1] Transmitted in two sections; sent to London as telegram 604 for Hoover and repeated to the Department.

I earnestly recommend, therefore, every effort be made to prevail on AIOC to be satisfied with compensation received from American companies and not to seek additional compensation from Iran. It might be stressed in this connection Iranian expressed willingness in past to pay compensation has been based on assumption that it would in future retain control production and sale its own oil.

2. Iran public for three years has been assured Iran has valid counterclaims against AIOC amounting hundreds millions dollars. Impression prevails wide circles that any fair international arbitration board would find that aggregate value these counterclaims would exceed that of losses AIOC installations in Iran. Iranian public would, therefore, believe amount Iran's counterclaims would more than offset financial losses AIOC during last three years plus value of internal distribution facilities of Kerman Shah refinery and of Naft-I-Shah oil field. It would regard $280 million as unreasonable and exorbitant.

3. I doubt Iran Government could survive which would present to Majlis agreement providing that Iran would receive less per barrel for oil than other Middle East countries. If, for example, it should be calculated Saudi Arabia receives 80 cents per barrel for oil and if Iran is to receive 80 cents minus 10 cents for compensation there would be tremendous uproar. I doubt government would dare sign such agreement; if it should do so I doubt Majlis would ratify it; if Majlis should do so I doubt agreement could long remain in force in face outraged public opinion. If AIOC insists on this additional compensation and if US Government and companies decide that regardless consequences in Iran they must associate themselves with AIOC in this matter it might be preferable request compensation in form of free oil so that Iran Government can tell its people Iran

will receive as much per barrel as any other Middle East country. I hope, however, it will not be found necessary make decision this kind.

4. It conceivable that Iran Government could be persuaded give AIOC reasonable amount compensation for loss to AIOC of latter's physical property in Iran other than that situated in oil fields of south. Iran Government might, for instance, be prevailed upon to agree to formula along following lines:

> "(a) In consideration arrangements which have been entered into between Iran and consortium for production refining and distribution Iran oil over period X years, and (b) arrangements which have been entered into between AIOC and other members of consortium; Government of Iran and AIOC agree to waive all claims and counterclaims which each may have against other at time this agreement shall come into force except such damages as AIOC has against Government of Iran as result of loss to AIOC of internal oil distribution facilities in Iran, Kerman Shah refinery and physical installations of Naft-I-Shah oil fields. Both parties agree on X million dollars as value these damages and Government of Iran undertakes to settle these claims by paying to AIOC (*note*: or, if considered preferable, 'to consortium') X cents per barrel on all oil delivered by consortium for distribution in Iran until such time as these damages, including interest at X percent on unpaid balances, have been paid."

5. If AIOC continues insist it be paid compensation for damages, distribution facilities in Iran, et cetera, it should be prepared to accept possible Iranian counter suggestion that these AIOC claims and Iranian counterclaims be submitted to International Arbitration Board.

6. I am sure in reading above you will not obtain impression that I do not believe AIOC has valid claims against Iran for damages, loss of distribution facilities, et cetera. I have merely tried point out practical considerations which, in my opinion, should influence AIOC not to present these claims.

7. I discussed this matter twice yesterday with British Ambassador who is communicating direct his government. Although he and I agree on some points I believe that I feel more strongly than he in advisability of submission of AIOC claims for $280 million.

HENDERSON

No. 442

888.2553/3-2254 Telegram

The Ambassador in the United Kingdom (Aldrich) to the Department of State[1]

SECRET NIACT LONDON, March 22, 1954—noon.

4062. Limit distribution. From Hoover.

1. At several meetings March 21 between US principals, Shell and AIOC it evident no further progress made. Fraser has accepted offer one billion dollars of which 150 million cash down and balance at rate ten cents per barrel over approximately 24 year period (stated on 100 percent basis). He insisted this contingent upon receiving compensation from Iran totaling 280 million dollars at rate approximately five cents per barrel over 20 year period.

2. Fraser refuses accept memo agreement with other companies unless this stipulation included, and under circumstances they hesitant comply. By signing US companies would be committed to proceed with deal regardless of whether or not US Government convinced it would be fair, durable and permanent in Iran. US companies believe better have this matter thrashed out now at risk of having entire negotiations jeopardized, rather than finding selves in impossible situation later. They believe should at least contain escape clause permitting withdrawal in event US Government becomes convinced final proposal would not be a durable solution. Ambassador and I agree and are so advising them.

3. No meeting March 21 between Caccia and Foreign Office group with ourselves. Further meetings not scheduled in view no comment yet from Department re Embtel 4057[2] and Tehran's 1977.[3]

4. Situation appears to us as follows:

(a) We had hoped that large amount cash and future income to AIOC, together with residual participation of 40 percent in proposed consortium, would permit HMG and AIOC to regard matter of compensation for past loss and damage from Iran as essentially an offsetting item against Iranian counter claims. Furthermore, we had hoped that effective modification of nationalization, which could only be brought about by a solution such as contemplated would when coupled with other benefits outlined, satisfy the basic principles of compensation.

(b) If HMG insists upon going ahead, only alternative we see is for them to negotiate matter of additional compensation for AIOC direct with Iran Government. This we extremely concerned about, as would subject proposed negotiations in Iran to many potential dangers including (1) doubtful ability negotiate satisfactory terms of agreement and (2) questionable permanence of final solution.

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[1] Repeated to Tehran and Paris.

[2] See footnote 2, *infra*.

[3] *Supra*.

(c) HMG has previously indicated compensation matters could be placed last on agenda of negotiation discussions with Iran Government. While this gives some hope of ultimate compromise, it could also lead to split between HMG and ourselves in relations with Iran Government, and we therefore have serious reservations re going to Iran without reaching full understanding.

(d) For many reasons we do not see how we can actively support HMG demand for specific additional compensation to AIOC from Iran as outlined above. We would therefore have to reserve our position on this phase of negotiations, because their request almost tantamount to asking us become arbitrator and decide on specified amount in advance without reviewing actual evidence.

5. Ambassador and I plan discuss this matter with Eden soonest possible, with intent request HMG reconsider its position in light of paragraph 4(a) above, and agree to forgo additional compensation for AIOC.

ALDRICH

No. 443

888.2553/3–2054 Telegram

The Secretary of State to the Embassy in the United Kingdom[1]

SECRET NIACT WASHINGTON, March 22, 1954—7:23 p. m.

4885. Limited distribution. For Hoover. Although recognizing importance British ascribe to matter, Dept cannot agree to support figure 100 million pounds suggested by UK Govt as compensation by Iran to AIOC. Arguments put forward by Amb Henderson (Tehran tel 1977, sent London 604, being rptd Paris by Dept) and Hoover's additional arguments (paras 5 and 6 London tel 4057, rptd Paris 546, rptd Tehran 180) seem to us overriding and almost incontrovertible. Insofar as principle of payment of compensation by Iran to AIOC is concerned, apart from internal arrangements within consortium for payment AIOC interests, Dept believes maximum which could be contemplated by Iranians would be compensation for such AIOC assets in Iran as are not recovered under consortium contract, along lines para 4 Tehran tel 1977.

British Embassy has presented memorandum here which states, *inter alia*, that compensation must be paid by Iran because otherwise total received by AIOC from consortium would place too low figure on value AIOC enterprise in Iran. Department unable concur that overall value of one billion dollars, as now agreed by companies on commercial basis, is too low in view of all circumstances.

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[1] Repeated to Tehran and Paris. Drafted by Stutesman and Jernegan and approved by Byroade.

Above position, expanded to include arguments used in pertinent London and Tehran tels, communicated British Embassy today with statement that Secretary and others in Cabinet held strong views on this subject. We now eagerly await report Aldrich and your meeting with Eden.

Re para 6 London tel 4057,[2] informal conversation with British Embassy representatives was held before receipt Henderson's views and with understanding comments conditional upon Tehran's reaction and high level study of question here.

DULLES

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[2] Paragraph 6 of telegram 4057, Mar. 21, reported that the British Government had conveyed the view that the Department of State supported the principle that some compensation to AIOC should be paid by Iran. (888.2553/3-2154)

No. 444

888.2553/3-2354: Telegram

The Ambassador in the United Kingdom (Aldrich) to the Department of State[1]

SECRET PRIORITY LONDON, March 23, 1954—1 a. m.

4104. Limit distribution. From Hoover.

1. Meeting noon March 23 at Foreign Office included Eden, Caccia and Denis Wright for HMG and Ambassador Aldrich, Butterworth and myself for US Government. Ambassador read prepared statement expanded along lines outlined Deptel 4885. Eden seemed surprised and upset, apparently expecting different approach. Discussion lasted over one hour, each side maintaining positions as originally outlined. Virtually all aspects of situation set forth with no indication of finding mutually satisfactory solution. Before adjourning Eden observed that matter particularly difficult for HMG, as Fraser had only agreed accept companies offer of one billion dollars on HMG assurance that his demand for 280 million additional compensation forthcoming. Group agreed meet again 5:30 p. m.

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[1] Repeated to Tehran and Paris.

2. Same group reconvened as scheduled, and Ambassador read proposal we had prepared as possible alternative for discussion purposes only, making clear it not yet submitted to Department and must be considered most tentative. Language followed closely as possible HMG memo March 18 included Embtel 4024 to Department, repeated Tehran 176.

"It is proposed that an understanding on following lines should be considered on US and UK sides:

> "a. That apart from consideration between members of consortium in respect of future there would be sum payable by Iranian Government to AIOC in respect of internal distribution facilities. Kermanshah refinery and Naft-I-Shah field and for damages arising directly or indirectly out of events of 1951 up to coming into force of consortium agreement.
>
> "b. That this sum should form an integral part of any final settlement with Iran Government.
>
> "c. That assuming Persian Government will agree to commercial arrangement with consortium (on a 50-50 basis) a net sum taking into consideration of claims and counterclaims is to be determined by negotiation or failing that by arbitration within following limits:
>
> "Maximum: $280 million total net payment by Iranian Government to AIOC.
>
> "Minimum: No net damage claims after counterclaims but payment for internal distribution facilities, Kermanshah refinery and Naft-I-Shah field on an engineering evaluation basis.
>
> "d. Payment of whatever sum is determined will be made over period of 20 years.

"Foregoing proposals do not refer to value of assets (apart from those mentioned at end of subparagraph c) nationalized by Persian Government or to future profits since it is assumed that these will be adequately covered by conclusion of acceptable commercial arrangement referred to above."

3. Caccia later suggested following additional paragraph which did not appear alter substance:

> "e. Consequently US Government and HMG agree:
>
> "(i) That as a part of forthcoming negotiations in Tehran, AIOC shall put forward a claim on basis of paragraph c above;
>
> "(ii) That HMG shall support this claim;
>
> "(iii) That although US Government will not commit itself to a figure, it will give Persian Government to understand that settlement of this kind is justifiable."

4. After extended discussion, Eden stated this formula might prove acceptable compromise, but foresaw some difficulties, not least of which was his ability sell it to Fraser. Nevertheless, he appeared think it was fair arrangement.

5. Considerable time devoted to consideration negotiating procedure in Tehran if this proposal adopted, it being our fear that if large claims were presented initially by AIOC it would seriously jeopardize ability negotiate satisfactory commercial agreement with Iranian Government. We stated flatly that unless such type agreement reached, US companies and Shell would not participate in final solution due repercussions on their operations elsewhere. It our impression that HMG still not clear on problems of negotiating procedure which must be most carefully planned in advance of arrival in Iran.

6. Finally, we made specific condition of our submitting above alternative proposal to Department, that it would be agreed by all parties that AIOC would take no action of any sort which would jeopardize ability of negotiators to reach satisfactory commercial agreement in Iran, including initial large or unreasonable demands for compensation.

7. Views of Department and Ambassador Henderson re alternative approach would be appreciated urgently as possible. Suggest inclusion of conditions or assurances along lines paragraph 6 if proposal otherwise considered satisfactory.

Aldrich

No. 445

888.2553/3-2454 Telegram

The Ambassador in the United Kingdom (Aldrich) to the Department of State[1]

SECRET PRIORITY LONDON, March 24, 1954—1 p. m.

4118. Limited distribution. From Hoover.

1. In further consideration of alternate proposal for solution of compensation matter, as tentatively suggested to Eden by us yesterday (Embtel 4104) following paragraph might be inserted to specifically include additional aspect our verbal reservations.

"e. Iran Government shall be advised, during course of negotiations, that:

> (i) Iran shall have option of either arriving promptly at negotiated figure with AIOC, or submission to an international arbitration board. In either event final figure shall be between limits set forth above.
>
> (ii) If Iran chooses submit matter to arbitration, all parties agree proceed with balance of negotiations; and if successful at-

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[1] Repeated to Tehran and Paris.

tempt obtain consummation of agreement and resumption of operations rapidly as possible without awaiting formal findings of award".

2. Former paragraph e would then become paragraph f.

3. We believe conditional statement, such as outlined above, desirable if Department and Ambassador Henderson agree that proposed approach is suitable promise [*compromise*].

ALDRICH

No. 446

888.2553/3-2554 Telegram

The Ambassador in the United Kingdom (Aldrich) to the Department of State[1]

SECRET NIACT LONDON, March 25, 1954—3 p. m.

4150. Limited distribution. From Hoover.

1. While we preparing answer to Department's questions in Deptel 4291[2] (re Embtel's 4104, 4118 and Tehran's 1994, 1996, 1997)[3] Caccia called and requested conference Butterworth and me soonest possible.

2. Meeting at noon with Caccia and Foreign Office group, Butterworth and I were shown message already sent British Ambassador Washington this morning March 25 for delivery to Secretary State essentially as follows:

(a) HMG will itself take over negotiation of AIOC claim against Iranian Government, and will handle matter through their Embassy in Tehran simultaneously with consortium negotiations.

(b) Limits of negotiation will be between $280 million as maximum and *value of* facilities (Kermanshah refinery, etc.) as minimum.

(c) Last paragraph of message reads:

> "HMG, in protection of British interests, must have discretion to handle AIOC claim for compensation with Persians as they think fit. In exercising this discretion HMG will, of course, take full account of needs of consortium negotiations as a whole and of understanding proposed by US Ambassador in London." (Apparently referring to our tentative proposal London Embtel's 4104 and 4118.)

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[1] Repeated to Tehran and Paris.

[2] Not printed. (888.2553/3-2154)

[3] None of the Tehran telegrams is printed. (888.2553/3-2454 and 888.2553/3-2554) For texts of telegrams 4104 and 4118 from London, see Document 444 and *supra*.

3. It is my impression AIOC were not willing accept formula similar to ours involving arbitration as final recourse, and in order avoid impasse, HMG has taken entire matter into own hands. When I asked Caccia what would happen if AIOC refused to accept amount negotiated by HMG, he replied "he will have had his fun and will be through". Caccia intimated Denis Wright would probably carry on negotiations. Latter scheduled arrive Tehran via KLM March 27.

4. It my preliminary reaction that HMG proposal is best possible solution under circumstances as HMG would undoubtedly take much broader view of situation than AIOC. As matter practical fact, we probably have no alternative.

5. Unless Department has strong reasons to contrary, it my recommendation we accept HMG position and cooperate fully as possible in order guide HMG actions in Tehran to greatest extent.

6. If Department decides on above course, after consultation with Ambassador Henderson, it may wish again impress on British our views along lines that:

(a) Solution along consortium lines is only feasible course to accomplish US security objectives in Iran.
(b) While we are cognizant of HMG desire to obtain fair compensation for AIOC from Iran, prosecution of such claim must not be allowed to jeopardize either a sound or durable solution.
(c) We believe a commercially acceptable arrangement, on fifty-fifty basis, is of paramount importance in minimizing nationalization elsewhere and will have greater ultimate effect on other countries than compensation of type here contemplated.

7. Would appreciate Department's repeating to us and Tehran context or summary of discussions and papers exchanged with British Ambassador Washington as only fragmentary parts available through Foreign Office here.

End message from Hoover.

I agree completely with conclusions and recommendations set forth in foregoing message.[4]

ALDRICH

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[4] In telegram 4969 to London, Mar. 26, the Department expressed the view that the British proposal was acceptable. (888.2553/3-2654)

No. 447

888.2553/3-2654: Telegram

The Ambassador in the United Kingdom (Aldrich) to the Department of State[1]

SECRET NIACT LONDON, March 26, 1954—6 p. m.

4178. Limited distribution. From Hoover. At meeting between Caccia, Foreign Office group, Butterworth and myself, afternoon March 26, proposed agreement prepared as follows:

"The following is the understanding between the United States Government and Her Majesty's Government:

1. Apart from consideration between the members of the consortium in respect of the future there would be a reasonable sum payable by the Iranian Government to AIOC in respect of the internal distribution facilities, the Kermanshah Refinery and the Haft-i-Shah Field and for loss and damage arising directly or indirectly out of the events of 1951 up to the coming into force of the consortium agreement.

2. Assuming the Persian Government will agree to a commercial arrangement with the consortium (on a 50–50 basis) a net sum taking into consideration claims and counter-claims is to be determined by negotiation or failing that by arbitration within the following limits:

Maximum: Pounds 100 million total net payment by the Iranian Government to AIOC.

Minimum: No net damage claims after counter-claims but payment for internal distribution facilities, the Kermanshah Refinery and the Haft-i-Shah Field on an engineering evaluation basis.

3. Payment of whatever sum is determined will be made over a period of 20 years.

4. This sum should form an integral part of any final settlement with the Iranian Government.

5. The foregoing proposals do not refer to the value of the assets (apart from those mentioned at the end of paragraph 2) nationalized by the Persian Government or to future profits since it is assumed that these will be adequately covered by the conclusion of the acceptable commercial arrangement referred to above.

6. Consequently, the US Government and HMG agree:

> (a) That, as part of the forthcoming negotiations in Tehran, HMG will put forward a claim on behalf of AIOC to the Persian Government in the manner that they think fit. In doing so, HMG will, of course, take full account of the needs of the consortium negotiations as a whole and of the above understanding.
>
> (b) That, although the US Government will not commit itself to a figure, it will support the principle of just compensation and will leave the Persian Government in no doubt that it is to

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[1] Repeated to Paris and Tehran.

the advantage of all concerned that the matter of claims and counter-claims involved shall be settled in order that the consortium may have the best chance of success."

Comments included in Embtel to follow.[2]

ALDRICH

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[2] On Mar. 26 Hoover cabled that the proposed agreement was, in effect, a modified version of the formula outlined in telegram 4104 (Document 444), that all commitments were included in the proposal; that the proposal envisaged a solution by negotiation and failing that, by arbitration; and that Hoover believed that the British Government would, in fact, be reasonable in negotiations, certainly more so than if the AIOC were handling matters. (Telegram 4179 from London; 888.2553/3-2654)

The Department replied to telegram 4178 later on Mar. 26 informing Hoover that the Department confirmed U.S. agreement to the memorandum of general understanding. (Telegram 4993; 888.2553/3-2654)

No. 448

888.2553/3-3054 Telegram

The Ambassador in the United Kingdom (Aldrich) to the Department of State[1]

SECRET NIACT LONDON, March 30, 1954—7 p. m.

4250. Limited distribution. From Hoover.

1. At meeting with Fraser of AIOC today, De Metz of CFP stated French company would take participation in consortium of 6% though he had been under great pressure from French Government take full 8% or even more.

2. It important to note this reduced participation requested by CFP was freely arrived at by them, on basis of commercial considerations only.

3. US companies and Shell of opinion, with which I concur, that this participation should be accepted, even though it still unrealistically high.

4. If Department approves proposed decision, in making acceptance known to French Government it may wish to state through whatever channels are deemed most effective that we assume we will have full support of French Embassy in Tehran during forthcoming negotiations. This also excellent opportunity drive home any additional points we may need to make and smooth over ruffled feelings if still existing.

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[1] Repeated to Tehran and Paris.

5. Department's views, together with comments from Ambassador Dillon and Ambassador Henderson, appreciated soonest convenient as decision should be made known HMG here March 31.[2]

6. I tentatively planning leave London for Tehran April 2 inasmuch this phase of negotiations appears completed.

ALDRICH

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[2] On Mar. 30 the Department informed the Embassy in London that Hoover could inform the British Government that the Department had agreed that French participation in the consortium on the basis of a 6 percent share was acceptable to the United States. (Telegram 5055; 888.2553/3-3054)

No. 449

888.2553/4-154 Telegram

The Ambassador in the United Kingdom (Aldrich) to the Department of State[1]

SECRET PRIORITY LONDON, April 1, 1954—8 p. m.

4311. Limited distribution. From Hoover. Butterworth and I met with Caccia and representatives Ministry Fuel and Power and Treasury today. They showed us text of proposed joint statement which they believe should be made in writing, probably early next week, to Iranian Government by Ambassadors Henderson and Stevens and which they are sending to Ambassador Stevens for his comments. They also showed us instructions which they are sending Ambassador Stevens regarding oral communication which he would make to Iranian Government in connection with proposed joint statement. Approach to Iranians, however, would not be made until further instructions received, as explained below.

After suggesting one or two obvious changes (to which British agreed) in proposed statement, we explained we would be glad forward it to Department and Ambassador Henderson, but that the latter's instructions would have to come from Department. Therefore, we could not make any recommendation regarding matter pending receipt of Ambassador Henderson's and Department's comments. We also undertook forward our tentative suggestions, which we showed British, as to instructions which Department might give Ambassador Henderson in this connection.

Text of proposed joint statement is as follows:

"1. A consortium has now been provisionally formed and is ready to discuss with the Persian Government the resumed operation of their oil industry. The group is composed of: Jersey Standard, 8 percent share, Socony Vacuum, 8 percent, California Standard, 8 percent, Gulf Oil, 8 percent, Texas, 8 percent (making total United States participation of 40 percent), AIOC 40 percent, Royal Dutch/Shell, 14 percent and Compagnie Francaise Des Petroles, 6 percent share.

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[1] Repeated to Tehran and Paris.

"2. Three representatives of the consortium will leave for Tehran to negotiate with the Persian Government as soon as the latter indicate that they are ready to receive the delegation. The consortium representatives are Mr. Harden of Jersey Standard, Mr. Snow of AIOC and Mr. Loudon of Royal Dutch/Shell.

"3. This delegation will be concerned with arrangements for the future and, in order not to complicate their tasks, it is proposed that two other matters, related to the general agreement which all hope will be reached, should for convenience be dealt with separately between Her Majesty's Government and the Persian Government.

"4. The first is the question of compensation for AIOC. Assuming that an acceptable arrangement is made between the Persian Government and the consortium, compensation will not be claimed in respect of assets to be used by the consortium or in respect of the future, that is for the period following the date on which general agreement comes into force. In such event, the problem becomes one of covering claims and counterclaims for losses and damages up to the date of the coming into force of the consortium agreement. Her Majesty's Government wish to assure Persian Government that what will be sought will be reasonable in amount and in period for payment, in order to avoid undue burden to Persia's economy. The principle of fair compensation is supported by Her Majesty's Government, the United States Government and all the members of the consortium and it is understood that the Persian Government has also assented to it.

"5. Both governments believe that every possible effort must be made to obtain a rapid, sound and durable solution. Therefore, though several alternate methods of arriving at an agreement might be chosen, they suggest that a sensible course, obviating need for protracted and contentious procedure of detailed examination of claim and counterclaim, would be for Her Majesty's Government and Persian Government to agree on an amount to be paid to the company which would dispose of this issue once and for all.

"6. The second matter which it is suggested should be dealt with separately is that of payments arrangements covering Persia's use of sterling, in which currency the consortium representatives will propose that their members, when settlement is reached, should pay the Persian Government. These arrangements will provide for conversion of Persian-owned sterling into dollars and other currencies to such extent as may be agreed."

End Joint Statement.

Our suggestion as to instructions which Department might give Ambassador Henderson, if he agrees, would be more or less as follows:

"In conveying the attached statement to Iranian Government you should make it clear that in our opinion it would be in accord with the principles of international economic intercourse for Iran to pay AIOC net damages, taking into account counterclaims as well as claims, for losses incurred as a result of nationalization to date. While the British Embassy will be carrying on the negotiations for compensation and the consortium members will be negotiating regarding future operations in separate meetings, nevertheless, it should be recognized that both problems form part of an integral whole.

"With regard to publicity, it has been agreed that the negotiating team will not make any statements other than a general statement on arrival expressing their pleasure at being in Iran and their confidence that with goodwill on both sides, a sound solution may be found to the oil problem. We also believe that neither the British nor American Embassies nor the Iranian Government should make any statements to press regarding course of negotiations without first clearing with each other and with negotiating team, and you should discuss this with the Foreign Minister."

British instructions to Ambassador Stevens, which are necessarily somewhat different, will be made available to Department and Ambassador Henderson by British Embassies Washington and Tehran. They relate largely to negotiations which British Embassy is to carry out with Iranian Government regarding compensation for AIOC.

British expect that after joint statement (or separate statement with same content if that determined to be more desirable) has been made to Iranian Government and negotiating team has left London for Tehran, Eden will make statement in Commons along lines paragraph one and two of joint statement.

Companies are meeting with AIOC tomorrow April 2 to receive final text memorandum of understanding setting up consortium which they are expected to initial.[2] Memorandum will then require clearance with company headquarters which it is hoped will not take more than 48 hours. As soon as agreements secured, Ambassadors Henderson and Stevens would be instructed make joint approach Iranian Government, assuming they and Department concur.[3]

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[2] The text of the final version of the Memorandum of Understanding, dated Apr. 9, among the companies forming the Iranian oil consortium, is enclosed as an attachment to a letter of Apr. 30 from Stutesman to Rountree. (GTI files, lot 57 D 155, "Consortium") Regarding the signing of this Memorandum of Understanding, see Documents 452-455.

[3] Henderson proposed and the Department agreed that the U.S. and British statements, slightly different in text, should be issued separately. (Telegram 2040 from Tehran and telegram 1988 to Tehran, both Apr. 2; 888.2553/4-254)

Hoover leaving for Tehran April 2 as scheduled. Embassy would appreciate Department's and Ambassador Henderson's comments soonest.[4]

ALDRICH

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[4] On Apr. 7 the Department informed the Embassies in Tehran and London that the Justice Department wished to emphasize that the statement to be presented to the Iranian Government could not be considered in any way to amplify the Attorney General's opinion given to the NSC regarding American company participation in the Iranian oil consortium. (Telegrams 2020 and 5229 to Tehran and London; both 888.2553/4-754)

No. 450

888.2553/4-354: Telegram

The Ambassador in the United Kingdom (Aldrich) to the Department of State[1]

SECRET PRIORITY LONDON, April 3, 1954—2 p.m.

4343. Limited distribution. At Caccia's request Embassy officer met with British group including Caccia, Maud and Playfair at Foreign Office today to discuss proposed communication to be made to Iran Government by Ambassadors Henderson and Stevens. British agree presentation should be made by two Ambassadors in successive interviews but strongly favor presentation identical statements (aside from small textual differences mentioned paragraphs 1-a and 1-b Tehran's 2040[2]). British group unanimously expressed view, however, that Ambassador Henderson's suggested changes for paragraphs 4 and 5 of proposed statement were not acceptable. They did not give details but commented these changes would "accentuate differences" between US and UK whereas text (Embtel 4311[3]) in drafting of which they pointed out Hoover had participated, was intended put US and UK as close together as possible.

Embassy officer made it clear that Hoover in transmitting draft to Department and Tehran had taken position we were forwarding draft without any recommendations pending receipt Ambassador Henderson's and Department's comments.

Since Hoover has meanwhile proceeded Tehran and will probably see Ambassadors Henderson and Stevens tonight, it was agreed Foreign Office and this Embassy would telegraph urgently suggesting he and two Ambassadors attempt work out revised draft soonest for submission Foreign Office and Department for approval. British expressed hope Hoover in discussing matter with Ambassadors Henderson and Stevens could give details re meeting here reported Embtel 4311 and explain background of British thinking re draft. Embassy representative of course made no commitment on this point.

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[1] Sent to Tehran for Hoover and repeated to Paris and the Department.

[2] See footnote 3, *supra*.

[3] *Supra*.

British stated (apparently for first time) that AIOC would not initial memorandum of understanding with companies until foregoing clarified between US and UK Governments. In this connection, companies met yesterday morning, received another revision of memorandum of understanding yesterday evening, and are meeting again this afternoon to discuss it and if they agree, forward it to their home offices for necessary approval which it hoped forthcoming over weekend.

Department's understanding (paragraph 3, Department telegram 5135[4]) re statements to press correct and is shared by British.

ALDRICH

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[4] Not printed.

No. 451

888.2553/4–454: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET NIACT TEHRAN, April 4, 1954—1 a. m.

2051. Limited distribution.

1. British Ambassador, Hoover, and I discussed this evening London telegram Tehran 202 to Department 4343[2] and came to agreement regarding virtually identical text subject to approval Washington and London. In order facilitate matters Hoover and I decided follow text of draft incorporated London telegram to Tehran 198, April 1, to Department 4311[3] unless we felt strongly changes should be made.

2. Paragraph 4 of original document (London telegram 198)[4] as agreed upon here as follows:

First sentence as in original. Second sentence insert "by AIOC" after words "will not be claimed". Third sentence reads "there remains, however, the problem of claims for losses and damages up to the date of the coming into force of the consortium agreement, including the fair value of the Kermanshah refinery, of the Naft-I-Shah oilfield, and of the internal distribution facilities, as well as of Iranian counterclaims". (Both Embassies, however, willing to accept as substitute "there remains, however, the problem of claims and counterclaims for losses and damages up to the date of the coming into force of the consortium agreement".) Fourth sentence: Substitute following for first five words: "It is understood that Her Majesty's Government has assured the Iranian" (British statement will not include this change). Fifth sentence: "The principle of fair compensation is supported by United States Government, by Her Majesty's Government, by all the members of the consortium, and, it is understood, by the Iranian Government."

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[1] Also sent to London.

[2] *Supra.*

[3] Document 449.

[4] Printed as telegram 4311, Document 449.

3. Paragraph 5 of original document has been altered somewhat. First sentence: "Both governments believe that every effort must be made to obtain a sound and lasting solution as rapidly as possible." Second sentence: Last portion to read as follows: "to agree on an amount of net compensation to be paid which would dispose of this issue once and for all" (Hoover and I feel strongly that words "to the company" be omitted. We agreed reluctantly to inclusion words "of net compensation").

4. Paragraph 6. No change first sentence, second sentence as follows: "These arrangements will provide for an agreed measure of conversion of Iranian owned sterling into dollars and other currencies."[5]

HENDERSON

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[5] The Department approved the suggested revisions advanced by Ambassador Henderson in telegram 1997 to Tehran on Apr. 4. (888.2553/4-454) The Embassy in London reported on Apr. 5 that the British Foreign Office that morning agreed to the revised statement to be used by Henderson and Stevens in their parallel approaches to the Iranian Government. (Telegram 4353; 888.2553/4-554)

Subsequently, Henderson reported on Apr. 7 that Ambassador Stevens, on instructions from London, made the following changes in the text of the parallel statement:

"(a) end of first sentence changed from 'their oil industry' to 'the oil industry'; (b) in third sentence fourth paragraph 'including the fair value of the Kermanshah refinery' changed to 'and for the fair value of the Kermanshah refinery' and (c) in same sentence words 'the problem' inserted before 'of Iranian counterclaims'. British Ambassador desired but did not insist my statement be amended accordingly, and in view their minor nature I have made changes. Contrary procedure which I plan follow British Ambassador has incorporated entire statement in formal first person note to Foreign Minister with introductory paragraph reading:

" 'I have honour, under instructions from Her Majesty's Principal Secretary of State for Foreign Affairs, to convey to Your Excellency following communication from Her Majesty's Government which has been drafted in agreement with Government of US.' " (Telegram 2078; 888.2553/4-754)

The Embassy in London reported on Apr. 9 that since the Memorandum of Understanding was being signed that day by the American oil companies and AIOC, the Foreign Office was cabling Ambassador Stevens in Tehran to approach the Ira-

Continued

No. 452

888.2553/4-554: Telegram

The Ambassador in the United Kingdom (Aldrich) to the Department of State[1]

SECRET NIACT LONDON, April 5, 1954—3 p. m.

4354. Limited distribution.

Re Embtel 4353,[2] following is that part of text of memo of understanding among companies relating to relations and indemnities which was agreed by companies and is acceptable to HMG.

"1. (a) The interests concerned (hereafter collectively called 'the consortium') will endeavor to make an arrangement (hereafter called 'the new agreement') with the Government of Iran which would be acceptable to each of those interests and which would enable Iranian oil to flow again into the world's markets on a commercial basis.

"(b) It is understood that HMG's Government will endeavor to come to a settlement (hereafter called 'the settlement') with the Government of Iran of the claims and counterclaims of the Anglo-Iranian and the Government of Iran.

"(c) In the course of the negotiations for the new agreement and the settlement, the following releases and indemnities will be sought:

"(i) By the Government of Iran in favor of the Anglo-Iranian.

"(a) A release by that government from all claims and demands of that government in respect of any matter prior to the effective date of the new agreement,

"(b) An indemnity by that government in respect of any claims and demands that may be made against the Anglo-Iranian by third parties arising out of the oil operations in Iran of the Anglo-Iranian prior to the events of 1951, and

"(c) An indemnity by that government in respect of any claims and demands arising directly or indirectly from the events of

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nians along the lines of telegram 4311 from London and subsequent telegrams. (Telegram 4461; 888.2553/4-954) The Department on Apr. 9 instructed Henderson to follow suit. (Telegram 2044; 888.2553/4-954) Henderson, in turn, informed the Department on Apr. 9 that he and the British Ambassador in successive meetings with the Iranian Foreign Minister that evening had delivered the parallel statements. The Foreign Minister stated that the Iranian Government would be pleased to receive representatives of the consortium. (Telegram 2095; 888.2553/4-954)

[1] Repeated to Tehran.

[2] In telegram 4353, Apr. 5, the Embassy reported that at a meeting that morning at the Foreign Office, U.S. and British officials considered certain outstanding points in a proposed memorandum of understanding among the companies that were forming the consortium, and that these points would be elaborated on more fully in telegram 4354. (888.2553/4-554)

1951 that may be made against the Anglo-Iranian by third parties.

"(ii) By the Anglo-Iranian in favor of the Government of Iran a release by the Anglo-Iranian from any claims and demands of the Anglo-Iranian in respect of any matter prior to the effective date of the new agreement.

"(iii) By the Government of Iran in favor of each of the members of the consortium and such of their affiliates as will enter into the new agreement.

"(a) A release by that government from all claims and demands of that government in respect of any matter prior to the effective date of the new agreement,

"(b) An indemnity by that government in respect of any claims and demands that may be made against any member of the consortium (and their above-mentioned affiliates) by the third parties arising out of the oil operations in Iran of the Anglo-Iranian prior to the events of 1951, and

"(c) An indemnity by that government in respect of any claims and demands arising directly or indirectly from the events of 1951 that may be made against any member of the consortium (and their above-mentioned affiliates) by third parties.

"(d) It is the intention that, insofar as the foregoing releases and indemnities affect the Anglo-Iranian, they shall be included in the settlement, and, insofar as they affect the consortium, they shall be included in the new agreement. HMG will, therefore, negotiate those affecting the Anglo-Iranian with Government of Iran and leave all others to be negotiated by the consortium (if, however, it appears to HMG during the course of negotiations that it would be appropriate and desirable that they negotiate the other releases and indemnities they will, if so requested by the consortium, be prepared to negotiate these others in behalf of the consortium for inclusion in the new agreement).

"2. If the new agreement is made by the consortium with the Government of Iran and such legislative and executive actions are taken in Iran as will give the new agreement the force and effect of law, and if the settlement is come to between HMG and the Government of Iran and if the releases and indemnities hereinbefore mentioned are obtained then it is the intention that:—."

Remainder memo largely concerns details payments and participation. There seems to us no problem regarding foregoing but American companies would appreciate Department's and Hoover's views.

In proposed exchange of letters re memorandum of understanding there was a reference to the "understanding between HMG and US dated 26 March 1954".[3] We suggested reference also be made to our memo March 27 (Embtel 4196). British objected claiming it would then be necessary for them indicate disagreement on point C of our memo of March 27.[4] Matter finally tentatively agreed by having pertinent sentences exchange of letters refer simply to "understanding between HMG and US Government on this subject". Please confirm acceptability.

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[3] See Document 447.

2. Another problem regarding memo of understanding arises in connection with the following which is quoted from memo of understanding: "(b) If a member transfers, by assignment or otherwise, the whole or part of its interest in the consortium in accordance with such terms as may be agreed between the members regarding transfer of interests, the obligation of the member to make the payments as set out in subparagraph (i) and (ii) above shall, unless otherwise agreed, continue unaltered. For this purpose crude oil and products owned or sold by any successor of any original member of the consortium and exported from Iran shall be deemed to be owned or sold by such original member and exported." In this connection AIOC wishes other members continue be responsible in the event a company to which transfer is made should fail to live up to obligations. American companies say request eminently reasonable and one they are fully prepared to assume where they responsible for selection companies to which transfer would be made, since this will not be so in case of independents. American companies though reluctant assume responsibility in that circumstance, have agreed to do so under terms indicated below.

HMG also unwilling take responsibility in this instance, contending problem derives basically from US anti-trust laws and solution therefore an American matter. Moreover, it not in position expertly to pass on financial capacity or integrity of US oil companies.

To cover this point and to give precision to subject matter of Embtel 4241,[5] following is substantive part of addendum to agreement:

> "There appear to be some considerations which would make it desirable for the five American companies, which have been participating in the negotiations regarding the consortium, to reserve the freedom to transfer some part of their total participation (aggregating 40 percent) to other American oil companies provided that no objection is taken to them by HMG or Government of Iran. This freedom should exist for a period of six months from the effec-

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[4] Telegram 4196, Mar. 27, is not printed; point C of the memorandum reads:

"(C) The US Government believes a commercially acceptable arrangement on a 50-50 basis, is of paramount importance in minimizing nationalization elsewhere and will have fully as great an effect on other countries, if not much greater, than would compensation of the type contemplated by Her Majesty's Government." (888.2553/3-2754)

[5] Not printed. (888.2553/3-3054)

tive date of an agreement between the consortium and the Government of Iran.

"Within such period of time and if the conditions stated below are met, each of the five American companies would be free to transfer up to 1 percent of its participation, making a total of up to 5 percent, to other established American oil companies of sufficient responsibility to undertake the financial obligations of their participation, or to an American company formed by such other companies. There would be required as conditions of any such transfer of participation that:

> "(1) It would be taken on the same terms and conditions on which that part of the participation PGs acquired by the five American companies;
>
> "(2) The transferees (S) would assume, in respect of that part of the participation thus transferred, all of the obligations of consortium members, including the obligation to make identical payments to Anglo-Iranian;
>
> "(3) If there were a default for a period of 30 days in making these payments to Anglo-Iranian the participation of the defaulting transferee (S) would revert to the transferor (S) at the option of the latter; and
>
> "(4) If there were more than one transferee, they would undertake to act as a single bloc in all matters relating to the consortium's operations either by agreement to that effect or by forming a company for that purpose.

"Provided the above reservation is granted and the necessary exception is made to cover it, the five American companies would agree to any undertaking, satisfactory to all the consortium members, that there would be no disposal by a consortium member of its interest for a period of five years after the effective date of an agreement between the consortium and the Government of Iran, except to a subsidiary or affiliated company (to be defined)."

Please if at all possible issue overnight instructions since consortium representatives have chartered plane to leave London Wednesday p. m. after members consortium have initialed memo of understanding and Iran invitation issued, which cannot take place until clearance from Washington obtained.[6]

ALDRICH

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[6] On Apr. 6 the Embassy in London informed the Department that all the details of the consortium memorandum of understanding had been concluded, and the only matters still outstanding were those referred to in telegram 4354. (Telegram 4375; 888.2553/4-654)

No. 453

888.2553/4–654: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET NIACT TEHRAN, April 6, 1954—3 p. m.

2067. Limited distribution. From Hoover. Re questions raised in London telegram 4354 to Department (repeated Tehran 204), my comments follow:

1. It should be borne in mind constantly that document entitled memorandum of understanding together with exchange of letters will at some future time become public property, or will at least come into possession of Iranian Government. Therefore believe general tone of document, in addition to its actual contents, should be matter of careful consideration. While only restricted excerpts could be included in reference telegram, it my impression that legal terminology and occasional choice of words might be reviewed to good advantage in London from standpoint of subsequent public relations in Iran. For example would suggest use some other word than "indemnify" in quoted passages of document if suitable alternative available.

2. See no objection to quoted passage identified as paragraph (2) of document, namely "and if settlement is come to between HMG and Government of Iran", upon which London specifically requests comment, if this satisfactory to US companies. Desire of latter to have escape clause in event that in their opinion, or that of US Government, compensation matter had prejudiced durability of consortium agreement would appear be satisfied by first part of same sentence, namely "if new agreement is made by consortium, et cetera." In other words they have option not to accept agreement if they believe it will not prove durable.

3. In proposed exchange of letters, it would appear desirable, if possible, that no mention be made whatsoever to any agreement or understanding between HMG and USG on subject of compensation for loss and damages, whether reference is made to specific dates or otherwise. It my memory that HMG was most emphatic that no mention be made of such agreement when discussing subject, and we concurred. See my paragraph (1) above re effect on Iranian public opinion in event of unauthorized publication.

4. In re clauses covering admission of US independents, see separate Embtel to follow immediately.[2]

HENDERSON

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[1] Repeated to London.

[2] Reference is to telegram 2069, Apr. 6, not printed. (888.2553/4–654)

No. 454

888.2553/4–754: Telegram

The Secretary of State to the Embassy in the United Kingdom[1]

SECRET NIACT WASHINGTON, April 7, 1954—2:11 p. m.

5231. Limited Distribution.

1. Have discussed your Memorandum of Understanding (London 4354 rptd Tehran 204[2]) with Justice and others concerned and advised that we are in agreement with proceeding on this basis provided that clarification of Section b is made as follows:

> "2.b. If a member transfers by assignment or otherwise the whole or part of its interest in the consortium the obligation of the member to make payments as set out in Paragraphs 1 and 2 above shall, unless otherwise agreed, continue unaltered. No part of the responsibility of the member for payment or offtake of petroleum or products from Iran shall be diminished, by such transfer, provided, however, such member or transferee shall, when petroleum or products have been offtaken from Iran, have complete and unhampered control of the disposition by sale, exchange or otherwise of such petroleum or products."

and provided that small 4 under required conditions of transfer for participation by independents is clarified as follows:

> "If there were more than one transferee they would agree to designate one common agent to deal with all matters relating to the consortium, provided, however, that when petroleum or petroleum products have been offlifted from Iran, all such transferees, independently of each other, should have free and unhampered right to dispose of such petroleum or petroleum products in their capacity as individual companies and without any restraint due to the joint representation of the group in consortium matters by the designated member."

These clarifications are deemed necessary in order to conform to Attorney General's opinion delivered to National Security Council.

2. With reference to limitation of five years on sales of stock by participants it would appear that the question is one of reasonableness and that a one-year or two-year limitation would be preferred. However, if the five-year limitation is determined to be essential to the prompt settlement, the Attorney General would not object.

3. Department of Justice points out, of course, that any agreement between consortium members and third parties or any provi-

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[1] Repeated to Tehran for Hoover. Drafted and signed by Byroade after being cleared with Deputy Secretary of Defense Anderson and by Assistant Attorney General Barnes.

[2] Document 452.

sion for future dealings must be maintained within framework of opinion heretofore given by Attorney General to NSC.

4. Regarding proposed exchange letters re Memo of Understanding (London's 4354 and Tehran's 2067[3]) Department would prefer have no reference to US-UK "understanding", but in view London's 4393, sent Tehran 209,[4] willing accept inclusion reference to "understanding between HMG and US Government on this subject.

5. Department appreciates importance of considerations set forth by Hoover in para 1 of Tehran's tel 2067, rptd London 639, and hopes companies will make textual changes as suggested.[5]

6. For information US officials only. Re independents, we are proceeding on basis Hoover's feeling there little chance success reopening matter now with British (Tehran tel 2055, rptd London 634)[6] but, should this course appear desirable in future, we would expect reopen question participation independents in light circumstances then existing.

DULLES

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[3] Document 452 and *supra*.

[4] In this telegram, Apr. 6, the Embassy in London informed Hoover that Caccia reported that the British Government had had the greatest difficulty in getting Fraser to agree to omit a specific reference to the U.S.-U.K. memorandum of understanding of Mar. 26 (see Document 447). It would be impossible, however, to get Fraser to agree to delete all general references to the understanding reached between the United States and United Kingdom in handling the AIOC's claims. (Telegram 209 to Tehran, repeated to the Department as 4393; 888.2553/4-654)

[5] On Apr. 8 Hoover informed the Department that he believed the Department of Justice stipulations were reasonable and should not delay the consummation of the consortium memorandum of understanding, which was necessary before the consortium negotiating team could depart for Tehran. (Telegram 2088; 888.2553/4-854)

That same day the Embassy in London informed the Department that the British companies comprising the consortium had serious objections to the inclusion of the Department of Justice language in the memorandum of understanding, and that Koegler of Standard of NJ would be explaining these objections to the Department. (Telegram 4453; 888.2553/4-854)

[6] Not printed. (888.2553/4-454)

No. 455

888.2553/4-954: Telegram

The Secretary of State to the Embassy in the United Kingdom[1]

SECRET NIACT WASHINGTON, April 9, 1954—12:37 a. m.

5304. Limited distribution. As result conversations today between Koegler of Standard NJ and Barnes and Emmerglick of Justice, with State representative attending, it has been agreed here following language could be substituted for paragraph 2(b) Deptel 5231 to London repeated Tehran 2022:

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[1] Repeated to Tehran. Drafted and signed by Stutesman after being cleared with Assistant Attorney General Barnes.

"If a member transfers by assignment or otherwise the whole or part of its interest in the consortium the obligation of the member to make payments as set out in subparagraph a and b above shall, unless otherwise agreed, continue unaltered. For the sole purpose of computing the amounts of these payments, crude oil and products owned or sold by any successor of any original member of the consortium and exported from Iran shall be computed as if owned or sold by such original member, and exported, without, however, any effect upon such successor's right to have complete and unhampered disposition by sale, exchange or otherwise of such crude oil or products. If a member or successor transfers the whole or part of its interest in the consortium to another member of the consortium, the transferor shall, to the extent of the interest transferred, be relieved of its obligation to make the payments as set out in subparagraphs (a) and (b) above."

It has also been agreed here that opening phrase of small paragraph 4 of addendum to agreement shall be revised to read:

"If there were more than one transferee they would agree to designate one common agent to cast a single vote as to all matters relating to the consortium, etc."

Basis Koegler's initial presentation was telegram he had received from Monaghan in London suggesting certain textual changes to meet both Justice and British views. Agreement was reached here on text substantially similar suggested language and Koegler then checked by telephone with London. British reportedly had some further objections and text quoted preceding paragraphs represents best effort here to meet objections. Koegler has telegraphed separately advice to companies to accept language and move ahead.

Advise urgently if any obstacles still remain to initialling memo understanding. Of course want to know immediately when consortium team sets firm date departure for Iran.[2]

DULLES

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[2] On Apr. 9 the Embassy in London informed the Department that the British companies had agreed to the language proposed in telegram 5304, that the American companies had confirmed this, and that the consortium memorandum of understanding would be initialed that day. (Telegram 4461; 888.2553/4–954)

No. 456

888.2553/4–1354: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET PRIORITY TEHRAN, April 13, 1954—5 p. m.

2120. Noforn. Limited distribution.

1. This morning Hoover and I had informal and friendly audience Shah lasting one and half hours. He primarily interested in various aspects impending negotiations with consortium but also asked many questions re coming compensation negotiations with British. Re latter we assured him it our understanding discussions limited solely to determination lump sum for loss and damages arising out nationalization, after consideration Iranian counterclaims. Compensation for value assets and for future profits would be included as part consortium agreement if satisfactory solution to other problems achieved.

2. Shah expressed concern re currency negotiations with British, that Iran would not have sufficient dollars if operations conducted in sterling. We explained matter one of extreme complexity and endeavored assure him we believed British would be sympathetic and fair in working out solution satisfactory both sides. We stated it our understanding Saudi Arabia, Kuwait and Iraq also operate on sterling basis, which he had not appreciated as had believed they still paid in gold. He appeared satisfied our explanation.

3. Hoover told Shah he had not had opportunity discuss currency matters with Ebtehaj in Washington for several months and did not know latter's latest thinking, for which he had great respect. I asked directly if Ebtehaj coming Iran soon, but Shah appeared not to know. (We considerably concerned that Iran may not have competent negotiating advice on currency question, and hoped plant idea of getting Ebtehaj here soonest as British obviously playing cards very close to chest and have refused consult with us re their full intentions. We do not feel appropriate we attempt advise Iranians re these matters under present circumstances.)

4. As on former occasions Shah again asked re sincerity and good will of British. Hoover assured him he convinced that HMG sincerely wished arrive at fair settlement oil problem and cooperating fully bring it about. Shah then stated he had some doubts re sincere desire AIOC see solution effected and asked Hoover's opinion. Hoover replied he believed AIOC fine organization, many of whose personnel friends and admirers Iran. But occasionally there were

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[1] Repeated to London.

difficult personalities to contend with in industry just as there were sometimes in governments but that time usually took care such matters. I stated I sure HMG would not allow such factor interfere with reaching equitable settlement.

5. Shah asked further questions re management and refining as well as plans envisaged conduct negotiations. We answered in general terms and repeatedly endeavored assure him of good will and sincerity all concerned.

6. Negotiating group has since arrival been reviewing plans for negotiations with ourselves and British Embassy in anticipation first formal meeting with Iranians April 14.[2]

Henderson

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[2] The consortium negotiating team arrived in Tehran on Apr. 11.

No. 457

Editorial Note

Negotiations between representatives of the consortium and the Iranian Government began on April 14, and continued to May 18. Detailed documentation pertaining to the course of the negotiations is in file 888.2553, including a file of the minutes of all the formal negotiating sessions, entitled "Notes of Meetings with Negotiators April 14, 1954 to May 18, 1954" (888.2553/4-1454), and another file of the negotiating documents entitled "Documents Relating To Negotiations With Iran April 14, 1954 to May 18, 1954". (888.2553/4-1454)

Extensive negotiations also took place during this period on the question of use of sterling as a basis for the oil consortium's operations and the attendant problem of sterling convertability. Documentation is in file 888.2553.

No. 458

888.2553/5-854: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET **PRIORITY** TEHRAN, May 8, 1954—2 p. m.

2287. Noforn. Limited distribution.

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[1] Transmitted in five sections; repeated to London.

1. It seems to me it might be useful for Department to have prior my departure Istanbul my views as of this morning re status and outlook oil negotiations.[2] These views based on conversations with Hoover, members Embassy Staff, representatives consortium, members British Embassy, and Iran leaders, as well as on such experiences as I have had in Iran and on my evaluation current political situation. Conditions here so fluid and fraught with so many uncertain factors it impossible forecast future developments with assurance.

2. *Management.* Shortly after negotiations opened consortium representatives took position consortium must control management of extraction and refining operations as principals (not as agents) whereas Iranians took position management must be under control National Iran Oil Company (NIOC); each side refused budge. Representatives consortium emphasized their terms reference did not permit them give ground and Iranians maintained Majlis and public opinion would not accept agreement giving control to other than Iranians. For time deadlock seemed almost inevitable. Tension lessened when both sides agreed to explore, without abandoning their original positions, kind of agreement that might be worked out on basis of concept of consortium being given effective control of extraction and refining industries as agent for NIOC or Iran Government. On this basis attempt is being made to bridge difference re management and to see what can be done to dispose of other issues.

3. *Operating companies.* Consortium representatives had proposed that consortium exercise its management through two subsidiary companies of British nationality—one primarily for extracting, other for refining operations. American oil companies had promised British Government to support British demand that these operating companies have British nationality in return for British Treasury agreement to convert sterling profits derived by American companies from their Iran operations into dollars. Dutch Shell also has promised British its support. Iranians have taken position it absolutely impossible accept British nationality and difficult accept other than Iran nationality. Privately and confidentially, however, Iran negotiators have hinted they might be able obtain acceptance nationality some small country such as Netherlands. British Ambassador and representatives AIOC indicate that because of British public opinion and for certain other somewhat vague reasons connected with currency control and purchase equipment and supplies which will be needed in Iran by consortium British Government must continue insist companies be British nation-

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[2] See *supra.*

ality. When Iran Ministers Foreign Affairs and Finance during private conversation told British Ambassador May 6 British nationality entirely unacceptable latter suggested discussions re this point be deferred until all other points settled. Members British Embassy have hinted to us that question nationality might at end of negotiations become "matter of bargaining". We inclined believe British realize it would be unwise from point of view acceptability and durability oil agreement that companies be British nationality and that they hope that by insisting on this point they will be able at last moment obtain compromise providing that managing director operations in Iran be British and that headquarters operating companies be in London. I think this kind compromise would be almost as unwise and unnecessary as agreement providing for British nationality of operating companies.

4. *Payment for crude.* Representatives consortium have proposed that consortium be given lease rights to extract oil; that title for oil pass to consortium as it leaves ground; that cost of production plus certain discounts be subtracted from posted price of Persian Gulf crude and that consortium pay Iran in form income taxes fifty percent of difference. Representatives consortium have indicated consortium desires this arrangement in order relieve its members of certain taxes in countries in which they are domiciled and also in order not set precedent which might be embarrassing to operations its members in other oil producing countries. Iranians object:

(a) To certain discounts which consortium has suggested be taken from posted price before profit sharing begins. Consortium argues that large discounts are being subtracted in other countries Middle East. Iranians aware that Aramco and Saudi Arabia are negotiating for reduction such discounts now paid to SAG to approximately two percent and may therefore take position it willing compromise this point on most favored nation basis.

(b) To such undisguised arrangements for "profit sharing" as substitute for sale of oil. Irans say they realize they will probably be compelled let consortium have fifty percent profits by taxes or otherwise but they hope this can be arranged in such way that Iran opponents to agreement will not be in such good position to make capital of fact that Iran has capitulated re matter which has been subject much heated discussion for last three years. I believe with certain amount conciliatory resourcefulness on both sides this issue can be resolved.

(c) To passing of title to consortium as oil leaves ground since Iranians consider this would mean that consortium really had oil concession in Iran. Consortium has continued insist that for taxation and other reasons it must have "property right" to extract oil and that oil becomes its property as it comes out. Iranians say it would be difficult for them convince Majlis such arrangement in conformity nationalization law. This difference could probably be bridged if both sides can agree to some kind agency arrangement.

If agency arrangement found impossible general negotiations will probably collapse and it will therefore be unnecessary argue re this particular point.

5. *Payment for products.* Consortium has proposed that all oil be purchased in crude form, but that members consortium pay to refining operating company cost of refining plus fee three shillings six pence per ton. This fee would be subject to fifty percent income tax. Iran would therefore receive additional one shilling nine pence for each ton oil refined. Iran objects. It desires that it share profits on fifty-fifty basis on all sales Iran refined oil products. Members consortium maintain that quite impossible as bookkeeping matter and furthermore arrangement kind proposed is in effect in other oil producing countries in area and therefore no exception can be made re Iran. Furthermore oil companies cannot afford pay more for oil refined in Middle East. Iranians will probably continue press for some disguised form fifty-fifty arrangement in matter of refined oil. I do not believe, however, they will let differences this respect result in breakdown.

6. *Volume of sales.* Consortium has proposed it would try produce during first year of agreement ten million tons crude, second year twenty million tons, and third year twenty-five million tons, with rate production thirty million tons at end third year. It also prepared try first year refine 6.5 million tons, second year ten million tons, and third year 12.5 million tons. Iranians insist on greater guaranteed production and refining during first three years and considerably more during subsequent years. I believe compromise agreement can be made in this respect which would mean consortium agreeing try to produce somewhat more crude than originally proposed during first three years and promise try thereafter assist Iran obtain position no less favorable than other countries Middle East.

7. *Compensation.* Consortium has proposed that in case general agreement reached along lines proposed, Iran will not be called upon pay compensation for nationalized assets in former concession area or for losses AIOC of future profits. It did propose, however, that Iran negotiate with UK for purpose ascertaining net amount it should pay, due consideration being given Iran's counterclaims, for losses incurred by AIOC as result it being deprived Iranian oil during period between date nationalization and that on which general agreement becomes effective. Negotiations between UK and Iran re compensation proceeding slowly. Thus far each side has been talking in generalities and avoiding mention of sums involved. Iranians have taken position (a) AIOC has only itself to blame for losses derived from failure receive Iranian oil since in

1951 it had refused Iran's offer to continue deliver to it Iranian oil against receipt pending working out new arrangements, and (b) Iranian counterclaims are as great as, if not greater than, losses suffered by AIOC because of failure receive Iranian oil. Iranians apparently are not sure soundness of position (a) and are therefore likely to rest their case for most part on position (b). In my opinion UK will not be able persuade Iran agree to pay as net compensation sum anywhere near as large as 100 million pounds sterling which it has in mind. Unless UK willing settle for much less than this amount all negotiations likely fail since it understood agreement between UK and Iran re compensation is to be integral part of settlement. Iranians aware that members consortium have agreed among themselves re value of nationalized assets in former concession area and that consortium intends include annually in cost of production percentage of amount at which these assets assessed. Since this would mean that during term of contract total revenue accruing to Iran would be reduced by 50 percent of value agreed upon, Iranians are now insisting they be informed re amount at which assets assessed. I understand representatives consortium have recently given this information to Iranians. It seems likely that this amount will be found to be so low that Iranians will have no reasonable grounds to object to deduction of half of it from their revenues over term of years. Amount of above deduction calculated to be exactly same as normal charges for depreciation on similar type operation if assets were owned by consortium.

8. *Currency of payment.* Consortium proposed that payments made for oil regardless whether direct, in form of taxes, or in form refining fees, should be in pounds sterling. Iranians at first objected but have since shown themselves willing consider matter favorably provided arrangements re convertibility into other foreign currencies to meet Iran's need in various countries can be met. Negotiations are being carried on between UK and Iranian Governments with purpose of reaching convertibility agreement. Although British negotiators have been unwilling keep Embassy and non-British representatives consortium informed re course these negotiations they assure us such negotiations proceeding satisfactorily and that Iranians seem pleased with amount dollars which UK willing to place annually at their disposal (apparently UK willing convert freely into EPU currencies so no problem in this respect at present).

We hopeful agreement reached will not make it impossible for Iran during future years to pay from oil revenues such loans as it may receive from US Government, from Export-Import Bank, from International Bank, et cetera; to pay what it might owe American firms for goods received on credit; and at same time to pay for such goods and services as it may currently require from US. We willingly concede that since most Iranian oil will be sold in sterling areas or in areas where currency is freely convertible in sterling it only logical that Iran should try supply its needs from abroad primarily from these areas, other factors being fairly equal. We believe, however, durability of concession will be weakened and American business may feel we have been remiss if at later date British Government in framework convertibility agreement now being concluded with Iran should be able to exert pressures which prevent or hinder Iran from buying in US goods or services which in Iran's opinion could be purchased most advantageously in US or should be able obtain commercial intelligence re US firms activities in Iran which would place those firms in disadvantageous position vis-à-vis British competition.

9. As can be inferred from foregoing I am not without hope that oil settlement can be effected provided agency/management arrangement can be worked out which would enable Iranian Government convince Majlis and public it living up to nationalization law and which would give consortium effective control operations in Iran on terms which would not seriously impair position its members in other oil-producing countries. Problems other than that of agency/management are nevertheless individually difficult and in aggregate rather appalling. If agreement to be achieved both sides must move rapidly and in conciliatory spirit since they are working against time. Extreme nationalist element spurred on by Communists, fellow-travelers and anti-western elements, are busy building up opposition to a reasonable settlement and will probably gain influence as negotiations lag. My belief is that target date for presentation of agreement to Majlis should not be later than end June. (Iranian negotiators are suggesting that in order expedite presentation, it might be wise present to Majlis not complete detailed agreement, but rather abbreviate "heads of agreement".) They indicate document this kind could be drawn up relatively quickly and might be put through Senate and Majlis more easily than one full of details. Their idea seems to be that upon ratification such document, oil could begin flowing while details of agreement were being ironed out. I inclined believe consortium should insist that document to be submitted for ratification must contain every point which consortium might consider important and which in its opinion should be adhered to during life of agreement. Points to which Iranian Government not formally committed through ratification could be too easily changed by administrative action or by subsequent legislative action. On other hand, details which are of administrative or transient character need not, in my opinion, necessarily be included in document submitted to Majlis and Senate. I have

strong doubts regarding advisability of permitting oil to begin to flow until detailed agreement has been reached regarding all matters of importance.

10. During last four days Iranian negotiators have been engaged in preparing document of provisional character outlining their suggestions, in light of conversations that have taken place, re kind of agreement that might be mutually acceptable. They plan submit this document to representatives consortium this afternoon. Much can depend character this document. If it indicates Iranians giving sympathetic consideration to problems faced by members consortium and prepared take position which will help consortium overcome its problems, outlook will of course be encouraging. If, on other hand, it shows that Iranians while taking advantage of conciliatory spirit shown by representatives consortium are not themselves prepared to make substantial concessions, representatives consortium likely become discouraged and in turn less conciliatory. British Ambassador, Hoover, and I have endeavored impress upon Foreign Minister and Finance Minister how important it is that this document reflect that both sides have made advances in direction of agreement.

11. It seems clear now that in any event it will not be possible for representatives consortium conclude agreement in framework their present terms reference. If it will be found possible within next two weeks for two sides make tangible progress towards an agreement on agency basis, representatives consortium may consider it worthwhile go to Rome or Paris discuss situation with their principals and ascertain whether latter willing give them more latitude. I inclined believe if general settlement to be reached representatives of consortium should have power enter into arrangements on agency basis (with as full safeguards as possible) which would guarantee it effective control operations they should request release from their promise to insist on British nationality of operating companies; they should be authorized to agree that general manager, at least for present, be not British and that headquarters these companies be located in Iran; they should be allowed work out some formula to make 50–50 profit-sharing concept more palatable, and they should be authorized promise try to increase to certain extent volume of production and refining. It possible that at such meeting question of amount compensation to be paid AIOC by Iran should be reviewed with view making recommendation to British Government. Otherwise, this problem might develop into serious stumbling block. Other differences which just now seem minor may increase in importance to such extent as to warrant their discussion also at this meeting.

12. Loudon, President Dutch Shell, compelled return Netherlands on business May 16; it might be that weekend beginning May 22 would be most convenient time for representatives consortium meet their principals and it to be hoped such meeting could be arranged on continent since psychological effect in Iran of another meeting in London would be bad. Ministers Finance and Foreign Affairs have expressed to Hoover and me their hope that only top representatives leave Iran to attend this meeting and that conversations can continue uninterrupted at technical level.

13. I have gone over this with Hoover and Rountree who are in agreement.

HENDERSON

No. 459

888.2553/5-854: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET PRIORITY TEHRAN, May 8, 1954—4 p. m.

2288. From Hoover. Noforn. Limited distribution.

1. Following analysis and recommendations are confined primarily to management problem and related factors which are believed to be major items to resolve in reaching successful oil agreement. More general appraisal of present status negotiations included in Embassy telegram 2287 to Department this date by Ambassador Henderson London 709.

2. Iranian hesitancy to grant adequate management authority to consortium during the present negotiations appears due to variety of reasons some more apparent than others.

3. Most obvious is whether consortium should have right to operate for own account which Iranians feel would be hopelessly in conflict with nationalization laws. Although discussions have now switched to hypothetical consideration of agency type agreement whereby consortium would operate for account of Iranian Government, Iranians still appear hesitant.

4. While inability of Iranians to make distasteful decisions has always been problem it appears there may be at least three additional points upon which they will require adequate assurances before they commit themselves on management question, namely, nationality of operating companies, nationality of management and location of consortium headquarters.

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[1] Repeated to London.

a. Nationality of operating companies.

I. Incorporation of operating companies in UK is not acceptable to Iranians. They would prefer Iran but will settle for a "neutral" country such as Holland or Switzerland.

II. HMG still officially insistent on UK. They urge that matter be left until very end of negotiations with expressed hope of either forcing it through or using it as a bargaining weapon in obtaining one or both of other major points enumerated below.

III. Consortium at present under obligation to UK Treasury to support UK incorporation in return for receiving certain sterling operating privileges. Companies however including AIOC will not accept Iranian incorporation. With exception of AIOC others would probably be glad settle for "neutral" country. AIOC would undoubtedly balk severely at Holland due to rivalry with Shell although UK Treasury could probably exert more control over sterling operations through Dutch domicile than through Swiss. US companies and Shell privately express deep concern re effect which UK incorporation would have on Iranians.

IV. US Government not committed in this matter. We convinced however, that incorporation of operating companies in UK would seriously jeopardize durability of any agreement in Iran even assuming it could be pushed through under pressure which seems unlikely. So far we have reserved our position giving British full opportunity to urge their own point of view. It seems advisable we assume more positive approach in near future and specific recommendations outlined paragraph 8.

b. Nationality of management.

I. Nationality or company affiliation of managing director (and by inference also that of top management staff) was not resolved or discussed at London meetings or consortium. In private talks Fraser expressed keen desire that Pattinson, former manager for many years AIOC in Iran and now one of four co-managing directors of parent company should become managing director of consortium. Fraser named Pattinson as AIOC member of negotiating group and he now in Iran.

II. Iranians have not yet raised matter of nationality or company affiliation of top management in Iran. It seems quite certain from confidential information available to us that Iranians will react even more violently against return of AIOC or British management than they are now reacting against the proposed British incorporation of operating companies.

III. HMG will probably do utmost to maneuver Britisher preferably AIOC man into position of managing director although matter has not yet been raised by them.

IV. Shell and American companies privately express selves as firmly against AIOC management for both technical and political reasons. They favor Shell individual of Dutch nationality as managing director with as many additional Dutchmen in top management as possible.

V. French will probably line up with AIOC if they pressed into taking position.

VI. US Government not committed to nationality of managing director or of his company affiliation. We feel return of British personnel in top management positions and particularly AIOC would jeopardize permanence of any agreement more seriously than any other single factor. Our recommendations on this phase of negotiations when they arise set forth paragraph 8.

c. Location of Consortium Headquarters.

I. There no discussion at company level in London of location of consortium headquarters. Fraser however privately expressed opinion that headquarters should be located in AIOC offices at Britannic House in London and that managing director would make his principal headquarters at that place.

II. It certain that Iranians would object strenuously to having headquarters of consortium located in London, particularly if it identified with AIOC. While this matter has not come up in discussions with consortium it certain it would become major sticking point if serious proposal were put forward to such effect.

III. It assumed that HMG will support position of Fraser although Denis Wright made strong statement in favor establishing headquarters in Tehran during Foreign Office meetings in London last March. It perhaps significant however, that after he had been in London several days he would no longer express opinion on this point.

IV. Shell and American companies feel strongly that headquarters of consortium should be in Iran, and that managing director and entire staff should reside permanently within country. It understood that these companies have taken similar position with respect to headquarters of Iraq Petroleum Company, but they have had no success in having offices removed from Britannic House in London.

V. It probable that French would line up with AIOC if they forced into taking position.

VI. US Government under no commitment with regard to location of headquarters for consortium. It is our opinion as in cases of nationality of companies and of managing director that durability of agreement would be severely affected if headquarters were located in UK. Specific recommendations set forth paragraph 8.

5. Consortium representatives plan to hold series of meetings with principals of their companies in approximately 2 to 3 weeks. They will then determine feasibility of operating under agency type agreement and review other details of proposals. Upon returning to Iran they would supposedly be ready negotiate on final terms. Notwithstanding desire expressed by British Ambassador to leave matter of nationality of companies until very last moment (presumably after the consortium representatives return to Iran), we believe this question as well as two others outlined above should be discussed with Iranians before consortium leaves Iran. If possible decision should be arrived at simultaneously with projected meeting of principals.

6. It my opinion that US companies and Shell will finally accept reasonable type of agency agreement. In order maintain strong bargaining position at present stage of negotiations, they apparently do not feel opportune time has yet arrived for making such concession, nor could they do so without authority from their principals.

7. While there no present indication that negotiations are reaching an impasse or breakdown, it certain that if such situation develops British will do utmost to shift blame on to US companies or US Government wherever possible. We should be constantly on guard against this type maneuver. Harden aware of this situation.

8. We recommend that US position should be to urge strongly:

a. Against (i) incorporation in UK, (ii) British top management, and (iii) headquarters in London.

b. In favor of (i) incorporation in "neutral" country, (ii) top management by non-UK–US personnel, and (iii) headquarters in Iran.

c. That these matters should be resolved at earliest possible moment, and certainly not later than at same time as meeting of principals scheduled within next 2 to 3 weeks.

9. We further recommend that we maintain our position so that:

a. If suitable occasion arises, we can advise HMG we will use our best efforts to convince US companies (and Shell) to accept agency-type agreement, in interest of effecting an overall settlement, on condition that HMG supports "neutral" nationality for incorporation and top management.

b. In event we fail in getting British to modify their demands, including possible stalemate in UK–Iran compensation negotiations, then we should be in position to announce that US companies will accept agency-type agreement, and thus avoid any onus on US Government of US companies for failure negotiations.

10. Situation here still sufficiently fluid that unforeseen developments may require revision above analysis and recommendations in some details, but believe broad outlines will remain regardless.

It most unfortunate that attitude British Ambassador, Treasury representatives and British Embassy Staff make certain of above conclusions and recommendations necessary.

11. Ambassador fully concurs.

12. Views and comments of Department and London appreciated soonest.[2]

End of message.

HENDERSON

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[2] On May 12 the Embassy in London responded that it believed it would be undesirable to approach the British with a view of changing the British Government position on particular points of disagreement until the points of difference between the consortium and Iran had crystallized. In the Embassy's judgment, the British would remain insistent on obtaining compensation, though they would doubtless be willing to reduce somewhat the figure of 100 million pounds in the course of negotiation. The Embassy also believed that the British would be almost as insistent on the issue of the nationality of the operating companies. If, however, the British were to abandon the point of British nationality, the Embassy thought the British would prefer Iranian nationality rather than neutral nationality in order to be able to make direct representations and, if necessary, be able to appeal to the International Court and the United Nations rather than having to deal with the Swiss or some other neutral government. (Telegram 5060; 888.2553/5-1254)

No. 460

888.2553/5-1554

Memorandum by the Deputy Assistant Secretary of State for Near Eastern, South Asian, and African Affairs (Jernegan) to the Deputy Under Secretary of State (Murphy)[1]

SECRET WASHINGTON, May 15, 1954.

Subject: Iranian Oil Consortium

We have learned that Mr. Harden, Chairman of the consortium negotiating team in Tehran, has recommended that the five American companies participating in the consortium consult with the Department[2] before the company principals meet the consortium team in London on May 24. The major issue to be resolved at that meeting is whether the consortium could accept arrangements to operate in Iran as agent of the Iranian Government, although retaining effective management control.

Ambassador Henderson and Mr. Hoover have reported that "unless agency route accepted, no agreement with Iran at present or for the foreseeable future will be possible." They also report their belief that the consortium negotiators fully agree. The Department also believes that any arrangement other than an agency-type contract would bear too close a resemblance to the former AIOC concession to be acceptable to the Iranian public.

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[1] Drafted by Stutesman and cleared by Raynor and Eakens.

[2] For a summary of this conversation, see Document 464.

Although we are not certain of the companies' reaction to this proposition, they apparently fear possible adverse consequence in other concession areas if an agency-type arrangement is made in Iran. They also are concerned that such an arrangement will be unwieldy and lead to misunderstanding and tensions in operations. On the other hand, our information indicates that the British are not averse to an agency-type arrangement.

The NSC has clearly stated the importance it ascribes to obtaining an early oil settlement in Iran. The Department believes that the very great political, strategic and economic difficulties which would result from a failure to obtain an early settlement outweigh the possible adverse consequences of establishing a precedent in the international oil business or causing operating difficulties for the consortium in Iran.

Recommendations:

1. That you seek the agreement of Deputy Secretary Anderson; and, if you think it desirable, of Secretary Humphrey to this proposition.

2. That you suggest to Deputy Secretary Anderson that it might be desirable for him to participate in the discussion with the companies.

3. That you discuss this problem with the companies on the basis of the attached talking paper,[3] and, if they show strong reluctance to accept an agency-type agreement, inform them of our opinion that this is the only way to achieve an early and lasting settlement.

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[3] Not printed.

No. 461

888.2553/5-1754: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET TEHRAN, May 17, 1954—8 p. m.

2347. Noforn. Limited distribution.

1. On afternoon May 16, shortly after my return to Tehran, meeting was held with consortium group, British Ambassador,

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[1] Repeated to London.

Dutch Minister, Hoover, myself and United States-United Kingdom staff members. Meeting devoted largely discussion management arrangements. Consortium representatives discouraged as result meeting with Iranian negotiators evening May 15, during which Iranians appeared to them to backtrack considerably regarding certain basic aspects, particularly in relation management.

2. Consortium and Iranian negotiators met again evening May 16, when Iranian delegation tabled memorandum outlining their ideas regarding management and particularly terms of agency arrangement[2] under which consortium would operate. Consortium representatives primary concern was related to preamble which indicated Iranian Government, as principal, would have extensive authority in "supervising" management operations, and that relations between NIOC and consortium would be "normal relations between principal and agent". During detailed discussion this memorandum, consortium representatives indicated to Iranian negotiators that with some modification, many points enumerated below preamble would be acceptable, although proposal as whole unacceptable. At suggestion Iranians, consortium representatives undertook revise memorandum in manner which would render it acceptable to them, such revision to be discussed at meeting scheduled evening May 17.

3. Early on morning May 17, Hoover and I were asked to call on Foreign Minister and Minister Finance, Amini. They expressed anxiety regarding progress of negotiation and difficulties arriving at satisfactory agreement, particularly regarding management problem. They asked if Hoover would undertake to intermediate and assist both sides in reaching acceptable formula. Hoover replied he most hesitant accept such responsibility as it might be misconstrued, unless he formally requested do so by both sides. Nevertheless, he glad offer suggestion at any time. In ensuing discussion of specific problems, Ministers showed us copy memorandum mentioned above. We stated that it our belief, primary difficulty was that of choice of words. In particular, we pointed out, that term "supervising", used in document in relation NIOC responsibilities, had connotation indicating direct participation in management, and suggested word "inspect" be substituted. We suggested further, that mutually acceptable set of regulations might be agreed upon and that Iranians have full right of inspection to determine if regulations being complied with. We made clear we were prompted make these suggestions by our knowledge that con-

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[2] This document, entitled "Memorandum on Agency", dated May 16, is in the folder entitled "Documents Relating to Negotiations With Iran, Apr. 14, 1954 to May 18, 1954," in file 888.2553/4–1454.

sortium had no objection to reasonable Iranian Government regulations, nor to inspection by competent body for determination of compliance. On other hand, we had understood from what Ministers told, not that Iranian Government did not in fact intend injecting itself into details of management, but sought only (a) assurances that proper regulatory functions of Iranian Government or NIOC could be effectively implemented, and (b) wording of agreement which would make it palatable to Iranian Majlis and public. We felt sure that these considerations could be adequately met through wording which would not lead consortium fear they would not retain effective management control. Furthermore, we asked Iranians if it not possible delete from memorandum phrase "normal relations between principal and agent", as such wording could be misconstrued in existing circumstances. We stated that we planned attend routine meeting of consortium principals, British Ambassador and Dutch Minister shortly and with their permission would explore possibilities of above approach. They acquiesced and it agreed that Hoover and I would meet with them again later in morning to discuss results.

4. At meeting with consortium group, Harden outlined what had taken place on preceding evening, explaining why Iranian proposals unacceptable. We reported our conversation of few minutes before with suggestions we had made to Ministers. Consortium representatives agreed this approach acceptable to them and, at our suggestion, said they would modify wording Iranian memorandum along lines indicated. We said that their suspicions that Iranian delegation was seeking obtain control of management might not be founded on fact and expressed hope present difficulty might be overcome if revision of memorandum undertaken with great care bearing in mind Iranian Government's public relations problem. Consortium representatives agreed we should state to Iranian Ministers their belief that such procedure appeared give hope of mutually satisfactory solution.

5. Later in morning we resumed discussions with Foreign Minister and Finance Minister, who appeared much encouraged by manner in which consortium had received suggestion. Consortium representatives are now preparing modification of Iranian proposal for discussion with Iranian delegation at meeting this evening.

HENDERSON

No. 462

888.2553/5-1854: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET PRIORITY TEHRAN, May 18, 1954—7 p. m.

2356. Noforn. Limited distribution. From Hoover. Re Deptel 2271 Tehran, 6143 to London May 17.[2]

While company principals will naturally feel most disappointed and reluctant on matter of accepting agency type agreement, believe Department may wish stress following points in discussion:

1. Ambassador Henderson, Embassy staff and myself are wholly sympathetic with viewpoint of companies re this matter, and have done utmost to aid consortium representatives in presenting case before Iranian Government. Nevertheless, it our considered opinion that operation for own account impossible obtain in Iran for at least several years to come, if ever, and that even if by most violent pressure an agreement containing such provision could be pushed through it would not last more than limited time. While we have stated this opinion to consortium representatives when our views requested, we have not attempted influence their attitude at any time. Their present views therefore result their own evaluation, which we believe now coincides with ours. It is my personal view that, if consortium provides enlightened management and undertakes public relations campaign, it may be possible effectuate sole modification of legal status at future date. Any such approach, however, impossible to achieve under existing conditions of public opinion brought about by events of last five years.

2. I believe Department should stress that fundamental problem of effective management by private industry, which is of infinitely greater importance than strictly legal and tax questions re agency type agreement, has apparently been resolved in favor of consortium. At meeting late yesterday Iranians seemed to agree to formula worked out as result our discussions outlined Embtel 2347 repeated London 722, May 17. We hope they do not change their minds again at ensuing meetings. It perhaps is natural that consortium legal talent here would place emphasis on legal status of relationship with Iranian Government, but my opinion fact that Iranians

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[1] Repeated to London.

[2] In telegram 2271 the Department informed Hoover that American oil company principals were assembling in Washington for discussions with Anderson, Humphrey, and Department of State representatives regarding the attitudes the companies should adopt for the meeting scheduled for May 24 in London. The Department expected that the major subject the principals would wish to discuss in Washington would be the management question, and the government officials planned to say that the agency-type agreement appeared to be the best and perhaps only hope of obtaining a settlement. Since the American oil companies were clearly reluctant to accept an agency-type agreement, the Department hoped Hoover had some suggestions to send the Department to make an agency-type agreement more palatable to the American companies. (888.2553/5-1754)

apparently now willing give same degree of management control under agency agreement as would be inherent in concession approach, is of overriding importance. Parenthetically, Ambassador Henderson and I now firmly convinced that, regardless other considerations (of which there many), Iranians simply cannot manage own industry for political reason, and it must be placed in competent hands of private management if country is to survive.

3. Re tax matter, I believe it would be most helpful if Secretary Humphrey would explore possibility that US companies could receive same tax and/or depletion advantages under agency type agreement as would be case if they had normal direct economic interest in production. This situation apparently of great concern to some of US companies, particularly Gulf, Texas and California Standard, all of whose operations in Middle East (Saudi Arabia and Kuwait) now have such tax and depletion treatment. As matters now stand they would be compelled to pay more taxes for concluding agency type agreement in Iran, in order to come to settlement which would be advantageous to US security, than they now paying in other countries in which they are acting as principals.

4. Term of contract not yet settled. Consortium has been asking for 50 years. While Iranians first proposed 20 years they now agree longer period desirable. Believe doubtful if final decision reached prior to departure.

5. It most doubtful that consortium representatives able return to London for meetings with principals with firm commitments from Iranians on many important aspects of negotiations. Believe Department should forewarn company principals accordingly. Reasons are (a) well known inability of Iranians reach distasteful decisions, particularly in absence positive and constructive leadership, (b) frequent warnings in press and by some vocal members of Majlis, tacitly supported by Shah, advising Iranian negotiators uphold nationalization laws (which open to wide variations of individual interpretation), (c) fact that Iranians not yet able assess entire package deal, including nationality of operating companies, nationality of top management, compensation currency payments, etc.

6. Believe it helpful, if Department agrees, to acquaint company principals re situation on UK incorporation of operating companies (Embtel 2288 to Department, repeated London 710, May 8). Ambassador Henderson and I believe, as result several informal discussions with Foreign Minister and Finance Minister, it virtually impossible finally conclude agreement in which either UK incorporation or UK top management would be included. It our considered judgment that any attempt do so would meet with peremptory rejection by Majlis, to prejudice of entire proposal. Consortium appears firm in rejecting idea of Iranian incorporation, with or without UK holding company (London's 5166 to Department 236 to Tehran May 18).[3]

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[3] In telegram 5166 the Embassy in London reported that the previous day Byroade was told by the British Foreign Office that the Iranian Ambassador recently informed the Foreign Office of his government's opposition to the idea that the operating companies should be of British nationality. Byroade stressed that Henderson felt

Continued

7. While it may appear consortium representatives returning London without accomplishing broad areas of agreement, actually we feel present plans working out to advantage. Iranians have been forced take definite position on number points while working against deadline of departure of consortium representatives. We also think time-out desirable as both sides, particularly consortium representatives, are feeling somewhat frustrated after five weeks of sessions, and each is beginning suspect other's motives.

8. It my opinion that following critical points must be decided in London:

(a) Whether or not US companies will accept agency type agreement, conditional upon receiving effective management control of operations;

(b) Whether or not HMG will cease to insist upon UK nationality of operating companies (and by inference, of top management);

(c) Whether or not consortium will agree to larger off take schedules than at present contemplated.

If decisions on each of above points are affirmative, and assuming compensation and current negotiations concluded satisfactorily, I believe all of remaining factors can be resolved by negotiations in Tehran.

9. It entirely probable that considerable pressure will have to be exerted by US on Iran Government to adopt final agreement in any event.

HENDERSON

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very strongly, and Washington agreed, that the Iranians would not accept British registration. Byroade was then told that the Foreign Office instructed Ambassador Stevens in Tehran to sound out the consortium members along the lines of setting up operating companies that would be Iranian, but with a holding company in the United Kingdom. It was also the opinion of the Foreign Office that it was unsatisfactory to have the companies domiciled in a third country such as Switzerland. (888.2553/5–1854)

No. 463

888.2553/5–2154: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET TEHRAN, May 21, 1954—1 p. m.

2382. Noforn.

1. Although Serpell, UK Treasury representative, scheduled leave evening May 20 for London, his departure put off until May 22 in view inability Minister Finance Amini to keep appointment

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[1] Transmitted in three sections; repeated to London.

early afternoon for crucial discussion UK-Iran payments agreement. However, in late afternoon Amini and Governor Bank Melli Nasser met with Serpell and other UK representatives for purpose giving Iranian reactions heads of agreement suggested by British. Later in evening Ambassador Stevens, Serpell and UK Economic Counsellor Titchener called on Ambassador with Rountree present.

2. At outcome [*outset*] latter meeting, Stevens said he at long last in position give us information re substance talks with Iranians on sterling payments any conversion question. He had been unable do this before some measure agreement reached in view "delicate nature these discussions" and desirability from British viewpoint maintain as much secrecy as possible in view effect certain aspects of proposed arrangements might have in other countries. He then asked Serpell to explain situation to us.

3. In extensive review past UK-Iran payments and conversion agreements, Serpell said arrangements in effect at time oil nationalization contained three provisions which were of particular concern to both sides in considering new agreement; i.e., (a) gold guarantee clause, (b) transferability of sterling for expenditures in non-dollar countries outside sterling area, and (c) dollar conversions. With regard to (a), although Iranians had sought similar gold clause, UK representatives had maintained firmly this not possible and Iranians had finally accepted this position. However, British representatives had agreed that gold guarantee clause in previous agreement would be considered operative as of date termination that agreement with respect sterling balances then held by Iran. Re (b) British had been able give Iranians "everything they wanted" question transferability sterling into currencies of virtually all free world with exception dollar account countries. Serpell commented that this is, of course, in line with new British policy.

4. Serpell said that (c) above understandably presented greatest problem. When Iranians earlier requests for unlimited convertibility were denied, they proposed UK assurance that minimum level conversions would be on basis percentage participation in consortium by American companies; i.e., 40 percent of oil revenues. Although British had explained that percentage US participation in consortium had no bearing on amount of oil which would be sold for dollars and that Iran oil would for most part be disposed of in non-dollar countries, British representatives recognized necessity for developing some criterion for rate of dollar conversions and eventually agreed that this might be as good as any. They had taken position, however, that 40 percent criterion would be ceiling rather than minimum. British agreed that if Iranians in any year reached maximum of conversions provided under agreement, UK

would consult with Iran on question of whether ceiling might be exceeded.

5. When queried by us re this point, British representatives stated they had not suggested pre-audit of dollar transactions, but that determination this connection would be left to Iran Government which would undertake stay within conversion ceiling. They said agreement would provide for "annual review" of past transactions (which they indicated would be little more than formality) to ascertain that Iran Government in general was living up to undertaking in agreement to make dollar conversions only for essential purposes and for goods and services which could not be obtained at comparable prices, quality and delivery dates from sterling area. (We were particularly interested in above point since only an hour before when Ambassador Henderson was at airport seeing Hoover off, Rouhani, member Iran Government oil negotiation team, called him aside and said that Minister Finance Amini had that morning asked for his views re certain issues related to UK-Iran negotiations on sterling payments and conversion. According Rouhani, Amini said that Serpell had proposed British make dollar conversions on basis pre-audit of each expenditure. Rouhani had replied to Amini that he was not financial expert and would be reluctant express opinion; however, he remarked to Ambassador he subsequently had been thinking about this and felt that such provisions should not be accepted. He asked Ambassador's opinion. Ambassador replied to effect he had not discussed matter with either British or Iranians and was not aware any such suggestion had been considered. However, he felt Iran Government would understandably want, perhaps within some limitation as to quantity, freedom in making its own decisions re dollar expenditures. This conversation not mentioned to British.

6. Serpell stated that in meeting with Iranians that afternoon, latter had raised four points re his suggested heads of agreement. British representatives had been able to meet three (unspecified) of these four points but one remained which he would have to discuss in London. Unresolved is request of Iranians that 40 percent criterion be applied not only to Iran's share of oil profits, but also to sterling received by Iran from consortium representing purchases of rials for local operating expenses. Serpell said this question had not been raised previously by either side.

7. British Ambassador and Serpell emphasized that one aspect of what they had told us was highly secret and urged that it be held between our two governments; that is, in relation to the 40 percent criterion. They said two agreements would be negotiated. One would be between the UK and Iran Governments and would merely specify, in connection this matter, that Iran would convert

sterling into dollars only for essential purposes and when goods or services at comparable quality and prices could not be obtained for sterling. The other agreement, which would be secret, would be between Bank Melli and Bank of England and would interpret this clause by setting forth the 40 percent criterion. We assured British representatives their confidence in this matter would be respected.

8. In general discussion May 20 it was not possible to take up with British representatives several details which could have important bearing upon US interests, nor were we shown copy proposed heads of agreement. Serpell offered meet May 21 with Rountree and Bray to discuss matter at greater length; however, today he is confined to bed. We hope be in position later to expand upon such matters as (a) pertinent details of arrangement between Bank Melli and Bank of England, including question of whether method of implementation of agreement would be prejudicial to American commercial interests, (b) duration and provisions for modification, (c) effect of agreement on sterling earned by Iran other than oil profits, and (d) attitude of British re conversion of sterling for servicing dollar loans. We also would like ask Serpell elaborate statement he made in passing to effect British had told Iranians that, with regard procurement by Iran Government for its own account (which presumably would include Plan Organization and most economic development activities), UK would expect favorable treatment sterling area.

HENDERSON

No. 464

888.2553/5-2454 Telegram

The Secretary of State to the Embassy in the United Kingdom[1]

SECRET PRIORITY WASHINGTON, May 24, 1954—11:50 a. m.

6287. At meeting today[2] with Humphrey, Anderson, Murphy and Byroade oil company principals agreed they could accept agency-type contract so long as following "minimum indispensables" met: (1) 50–50 profit-sharing; (2) taxes should constitute main portion money paid Iran; (3) duration agreement should be approximately same as former AIOC concession; (4) full and effective management control; (5) monopoly production and marketing oil in contract area although Iran would have option sell certain percentage crude oil received as royalty; (6) "concession security" must be guaranteed in form Majlis approval all essential parts agreement.

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[1] Also sent to Tehran for Hoover. Drafted by Richards and Stutesman on May 21 and approved by Byroade.

[2] Although this telegram was not transmitted until May 24, the meeting was held on May 21. (Memorandum of conversation; 888.2553/5–2154)

Company principals agreed British manager and UK incorporation operating companies could not be accepted present time by Iranians; however, they were firmly against incorporation in Iran or Iranian manager.

Assumption at meeting was that US Gov't would exert maximum pressure in Iran in support above requirements if suitable face-saving devices provided Iran. Re questions of registration and nationality manager it was agreed US Gov't would if necessary exert pressure on UK Gov't at appropriate time in forthcoming discussions in London.

It was pointed out that political and strategic consequences failure obtain settlement from present negotiations would seriously endanger security Middle East and would possibly confront US Gov't with need take some alternative action in attempt save Iran from communist control. For instance, it was suggested US Gov't might consider it necessary sponsor some independent oil venture to lift at least limited quantities oil.

DULLES

No. 465

Eisenhower Library, Eisenhower papers, Whitman file

Memorandum of Discussion at the 199th Meeting of the National Security Council, Washington, May 27, 1954[1]

TOP SECRET EYES ONLY

Present at the 199th meeting of the Council were the President of the United States, presiding; the Vice President of the United States; the Secretary of State; the Acting Secretary of Defense; the Director, Foreign Operations Administration; and the Director, Office of Defense Mobilization. Also present were the Secretary of the Treasury; the Attorney General (for Items 1 through 6); the Director, Bureau of the Budget; the Chairman, Atomic Energy Commission (for Items 5 and 8); Assistants Attorney General Barnes and Rankin; Mr. Herbert Hoover, Jr., Department of State (for Item 2); the Chairman, Joint Chiefs of Staff; the Director of Central Intelligence; Mr. Robert Cutler, Special Assistant to the President; the Deputy Assistant to the President; Mr. Robert Amory, Jr., Central Intelligence Agency; the White House Staff Secretary; Mr. Bryce Harlow, Administrative Assistant to the President; the Executive Secretary, NSC; and the Deputy Executive Secretary, NSC.

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[1] Drafted by Gleason on May 28.

There follows a summary of the discussion at the meeting and the chief points taken.

[Here follows discussion of item 1, the Saudi Arabian-British territorial dispute over the Buraimi oasis.]

2. *United States Policy Toward Iran* (NSC 5402, paragraph 15; Memos for NSC for Executive Secretary, same subject, dated May 25, 1954)[2]

After Mr. Cutler briefed the Council on its four prior actions on this problem, and referred to the various memoranda relating thereto, he called on Mr. Herbert Hoover, Jr., to make his oral report.[3]

Mr. Hoover stated at the outset his belief that there was about a 75–25 chance of reaching an oil settlement. The 25% of doubt arose largely from general pessimism, which attaches to anyone who is obliged to deal with the Iranians. He next proceeded to give a brief history of the negotiations to date, ending with a statement on the very great difficulty of the problem, and pointing out that this was perhaps the largest commercial deal ever put together, with assets which might be worth over a billon dollars.

Mr. Hoover then stated that as of recent date three sets of negotiations were going on simultaneously in Iran. The first dealt with the creation of the consortium; the second with the problem of compensation for the Anglo-Iranian Oil Company; and the third with the problem of convertibility of sterling into EPU (soft) currencies and dollars. These three together would comprise a package deal. The present status was as follows: The consortium negotiating teams and the other two teams were involved in their negotiations in Iran up until a week ago. A recess had now been declared, during which the consortium teams would be getting together with their several governments. Accordingly, in the next two weeks we should have to reach a number of vital decisions. However, Mr.

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[2] For text of NSC 5402, see Document 403. Neither of the two memoranda from Executive Secretary Lay for the National Security Council is printed. Lay, under cover of one memorandum, sent NSC members the oil companies' notes for discussion which they had presented at their meeting with U.S. Government officials on May 21. (S/S-NSC files, lot 63 D 351, "NSC 5402—Memoranda (175)") Lay, under cover of the other memorandum, sent NSC members a brief summary of the current situation in the Iranian oil negotiations prepared by the Chairman of the OCB Working Group on NSC 5402. (S/S-NSC files, lot 63 D 351, "NSC 5402—Memoranda (175)")

[3] On May 19 the Department had informed Hoover that the NSC had proposed that he attend its regular session on May 27 to report on the oil situation. (Telegram 2280; 888.2553/5-1954)

Hoover perceived no insuperable obstacles. One of the major problems was that the British had insisted up to now that the operating company in Iran be incorporated in the United Kingdom. This was a condition which it was impossible for the Iranians to accept. There was more to it than the mere formality of incorporation, since the issue actually amounted to management control of the new enterprise.

Secretary Dulles inquired whether an agreement had been reached as to who would constitute the top management of the enterprise. Mr. Hoover replied that although this question had never actually been raised in the negotiations, the Anglo-Iranian Oil Company was desperately trying to secure for itself control of the management of the new company. The Americans, on the other hand, were pushing for Shell to provide the top management. The French were lining up behind the British proposal.

Mr. Allen Dulles expressed the belief that Iran would be willing to accept Dutch management control as provided by Shell. Mr. Hoover concurred, but could express no opinion as to how the issue would be resolved.

Mr. Hoover then pointed out that whatever deal we managed to make in London would be bound to have one very distasteful feature for the Iranians—namely, that management control would have to be in the hands of non-Iranians. This was essential for purely internal reasons. The Iranians were incapable themselves of providing efficient management control. As a result, the United States would be obliged to continue to provide economic aid to the Zahedi government until such time as oil revenues again began to flow. On the other hand, we will have to make up our minds in fairly short order and have a showdown with the Iranians on whether they will or will not agree to a reasonable settlement. We cannot subsidize them indefinitely by our economic assistance.

Mr. Hoover also expressed the opinion that no oil agreement with Iran would be durable unless it had the unequivocal support of the Shah. He had proved rather slippery, and we had got to nail him down to the agreement. This, in a sense, involved a wholly separate negotiation with the Shah, involving a U.S. offer of military assistance to Iran. Mr. Hoover recommended, however, that the United States withhold any offer of military assistance until the time came to confront the Shah with the necessity of his firm agreement to the settlement. Therefore, Mr. Hoover recommended that when the negotiations resumed in the middle of June, we let them continue their normal course for a month. If by then the Iranians had not agreed to a settlement, the United States should begin to apply heavy pressure.

The President inquired whether General McClure was doing a good job in Iran. Mr. Hoover replied that from all he had heard, General McClure was doing a first-rate job. The President said he was glad to hear this, since he had personally insisted on General McClure's staying in Iran when the military authorities would have like to bring him back as having passed the retirement age.

Mr. Cutler then raised with Mr. Hoover the question as to whether any Iranian oil settlement should be bulwarked by a treaty between the United States and Iran. Mr. Hoover said that he thought it would be very difficult to get such a treaty out of the Iranians, since it would be viewed by them as a challenge to their integrity in having agreed to an oil settlement. Of course, he added, it would be desirable to have such a treaty if it could be got.

Mr. Cutler then asked whether, as scheduled for June 1, a further review of U.S. policy in Iran should be considered by the Council. Mr. Hoover believed that from now on, for the next few weeks, the music should be played by ear and no new date set for reexamining the possibility that the United States might unilaterally have to seek a settlement of the oil controversy.

At the conclusion of the discussion, the President expressed his own and the Council's gratitude for the remarkable job which Mr. Hoover was doing. Mr. Hoover thanked the President, but said that he had used up his store of patience for the next five years. Mr. Hoover also praised the American oil companies for having taken a broadminded and patriotic view during these difficult negotiations. Secretary Dulles added a word of praise for Mr. Hoover's patience and persistence, and also acknowledged the excellent cooperation which had been provided by the Department of Justice. "Both Herberts", he said, deserved great gratitude. The President commented that the longer he worked in his present job the more he was impressed with the virtue of patience.

The National Security Council:[4]

a. Discussed the subject on the basis of an oral report by Mr. Herbert Hoover, Jr., and the enclosures to the reference memoranda relating to the Iranian oil negotiations.

b. Agreed that no further review of U.S. policy (NSC 5402) would be required at this time in view of the present status of the Iranian oil negotiations.

c. Noted statements by the President and the Secretary of State expressing the admiration and gratitude of the President and the National Security Council for the services performed by Mr. Herbert Hoover, Jr.

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[4] Paragraphs a–c below constitute NSC Action No. 1134. (S/S–NSC (Miscellaneous) files, lot 66 D 95, "Record of Actions by the NSC, 1954")

[Here follows discussion of items 3–11, United States policy toward Guatemala, the increased Chinese Communist threat to the Tachen Islands, the evacuation of selected key indigenous persons from danger areas, the evacuation of United States civilian population abroad prior to hostilities involving regimes hostile to the United States, United States civil aviation policy toward the Soviet Union and its satellites, the proposal for an international moratorium on future tests of nuclear weapons, mobilization planning, Southeast Asia, and significant world developments affecting United States security.]

S. EVERETT GLEASON

No. 466

888.2553/5-2854: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET PRIORITY TEHRAN, May 28, 1954—6 p. m.

2418. Limit distribution.

1. On evening May 25 Ala, Minister Court, suggested it might be useful for me request audience Shah. I agreed. Morning 26th he telephoned appointment May 27. At my suggestion, I saw Ala morning May 26.

2. During long conversation Ala told me Shah would probably ask my opinion re wisdom bringing another Prime Minister to conclude oil negotiations. Some Shah's advisers had been telling him US and particularly UK did not like idea concluding agreement with Zahedi, and agreement would, therefore, be easier if Zahedi could be replaced by someone of national stature more acceptable to West. Impression being created that negotiations would continue drag so long as Zahedi Prime Minister. . . .

3. I told Ala I surprised Shah should heed advice this kind. I confident both US and UK quite prepared conclude oil agreement with Zahedi Government. Delay this far in reaching agreement due to factors primarily commercial character. US companies and Dutch Shell just as much responsible for any delay attributable to consortium as AIOC. I could not see how any intelligent Iranian could believe Zahedi *persona non grata* to US. Ala said US press during recent months had been hostile to Zahedi Government. Since last February practically only articles re Iran to be found in US newspapers and magazines were of slighting character. He showed me

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[1] Transmitted in three sections; repeated to London.

issue *Life* magazine (I believe of April 19) containing some posed pictures of so-called "brainless one", and indicating that this gangster played dominating role in Iranian elections. Ala said it hard for Iranians believe US Government favored Zahedi Government while tone US press either hostile or contemptuous. I told him I agreed this article, as well as number other articles published in US press of late, likely create false impression. They were, in my opinion, product of prejudiced and irresponsible journalism. They in no way indicative US policy. Ala should know from his long residence in US that US journalists and press sometimes took pride in publishing articles which appeared run counter to US policies. I convinced that any successor to Zahedi would encounter just as great, if not greater, difficulty in effecting oil settlement as Zahedi. If these negotiations should break down, I did not believe any other Prime Minister could succeed where Zahedi had failed unless Shah would give new Prime Minister more support than he had given Zahedi. Shah rather than Prime Minister likely in long run be decisive factor in achieving settlement.

4. During my talk with Shah on May 27, he asked . . . whether in my opinion it would be easier for oil settlement to be effected if Zahedi would be replaced. I said Ala had already discussed this matter with me and that after giving it some thought I had not changed opinion which I had expressed to Ala. I confident that US and UK would welcome oil agreement with Zahedi Government. Present delays not due to any dislike of Zahedi. As I had told Ala, American and Dutch companies just as adamant in insisting on certain conditions for settlement as AIOC. I had good reason believe Zahedi *persona grata* with British. Shah remarked rather drily that judging from recent attitude British and US press, British public opinion better disposed to Zahedi than America. I said I assumed he referring to recent article in *Life* magazine. He said he receiving clippings from various American newspapers and magazines distinctly critical of and unfriendly to Zahedi Government and also to Iran.

He at loss to know how to remedy bad press which Iran receives in US. I said that unfortunate set of circumstances and poor selection of journalists responsible for certain articles, but I could assure him US public and press in general were favorable. Shah said he had not meant to intimate US and British Governments did not like Zahedi or did not wish deal with him. His thought was that in view fact Zahedi did not seem to be popular throughout country and that, therefore, his position in Senate and Majlis was not too strong, US and UK Governments might believe that it would be preferable for government headed by some other person in whom public would have more confidence to sponsor oil settlement before country and in Senate and Majlis. I must be aware of fact that Zahedi was under fire primarily because (a) his government had failed to take effective measures re high cost of living; (b) it was believed to be infiltrated with graft and corruption; (c) it had failed to live up to his promises to promote economic development in country; and (d) it had been inept in conduct elections and in dealing with Majlis and Senate. Although Shah personally convinced that Mosadeq primarily responsible for present high cost living, that charges of corruption were being grossly exaggerated by enemies of government, and that in absence of funds Zahedi could not be blamed for poor showing in economic development of country, nevertheless, campaign carried on against Zahedi had resulted in sharp deterioration his position. . . . Shah said he would like me understand that his present uncertainty re desirability keeping Zahedi in office had not arisen because of unsatisfactory relations between Zahedi and himself. Zahedi's attitude towards him had considerably shifted of late. Zahedi at present was making special efforts to cooperate with Shah and was in general accepting Shah's suggestions with good grace. He did not believe his relations with any Prime Minister could be better than those which he now had with Zahedi.

5. I told Shah my feeling at moment was that it would be preferable not change horses in mid-stream unless really necessary. I feared such change might lead to political confusion and uncertainty and to further delays in oil negotiations. New government would probably feel constrained review conversations which had already taken place and might well seek to make changes re certain points already agreed upon. It would be discouraging if representatives consortium would be compelled explain its problems and attitudes to new government just at time present negotiators beginning understand what situation was. Furthermore, I not convinced any new Prime Minister would enjoy more prestige, at least initially, in country and legislature than Zahedi. I could not think of any Iranian who in present difficult circumstances could discharge duties of Prime Minister and negotiate oil settlement more effectively than Zahedi. If Zahedi could be prevailed upon to stop insisting on immediate purchase large quantities of equipment, supplies, etc., from abroad which Iran not likely in foreseeable future be in financial position to pay for or even to use and if he could be persuaded to confine his activities to policy-making and issuance of directives and to allow appropriate Iranian officials to carry on detailed operations, his prestige might be enhanced between now and such time as oil agreement would be submitted to Majlis for ratification.

It seemed to me preferable try to help guide Zahedi along sound paths rather than to look for his replacement. Regardless who

Prime Minister might be at time oil agreement should come up for ratification, legislative approval would not be obtained unless legislature and people of country convinced that agreement met with approval Shah himself. Shah as well as Prime Minister must therefore sponsor any agreement if it was to have chance ratification. If Shah would seek guide Zahedi, giving him at same time full support, and if he would give unequivocal support to such agreement as Zahedi might conclude, it seemed to me good chance agreement being ratified unless representatives consortium should unexpectedly assume unreasonable attitude. Although these my present feelings, I nevertheless would discuss matter immediately with my British colleague and would be prepared within four or five days to talk about it again with Shah.

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7. Position Zahedi Government may not be as strong now as it has been in past. Number ambitious and intriguing politicians, disappointed aspirants for high office, and enemies Zahedi for moment intriguing more or less in concert to have him replaced. Some hope that in game musical chairs which would follow change, they might be able move to more influential or important positions. Furthermore, campaign against Zahedi on grounds corruption has been quite effective. Zahedi, by taking personal interest in matters involving expenditures or commitment of funds and by appointing persons tarnished reputation in positions where they can dispose of considerable funds, has rather stupidly made himself and his government vulnerable to these charges. If Shah would nod his head in that direction both legislative houses would undoubtedly give Zahedi vote of no confidence. Matter of selection of successor would, however, not be so easy. In my opinion disappointment and bitterness following selection of successor would be greater than they are now. I believe, therefore, when I see Shah again I should repeat in substance what I have already told him. I might add that I might be compelled change my opinion if in spite efforts Shah and more responsible members Cabinet guide him, Zahedi should persist in course which if followed might cause disaster to Iran in future years. I would be grateful for any advice or suggestions which Department might see fit give. I do not plan see Shah again before June 3.

HENDERSON

No. 467

888.2553/5-2954: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET PRIORITY TEHRAN, May 29, 1954—5 p. m.
[Received 1:17 p. m.]

2432. Limited distribution.

1. We can say with certainty only that (a) from Iran viewpoint UK nationality operating companies unacceptable, and (b) consortium representatives have made it clear that Iranian nationality under plan considered prior UK suggestion re British holding company unacceptable from their viewpoint. It possible British plan set forth Deptel 2330 to Tehran (6435 to London)[2] would be found palatable to Iran Government. We do not, of course, know attitude consortium representatives; however, it seems most of the considerations which led consortium disapprove simple Iranian nationality operating companies would continue exist under British plan. It difficult for us to see how British proposal would be workable and would not establish precedent seriously inimical consortium interests elsewhere. Regardless nationality of holding company, incorporation operating companies in Iran would subject them to Iranian laws which could in years to come impose such difficulties as to render effective operations difficult or impossible. In our judgment, therefore, US companies should not be advised by US Government to accept arrangement of this kind.

2. We fear it unlikely matter can be settled without prejudice durability or workability of agreement on any basis other than third country nationality of operating companies. If UK has valid arguments re diplomatic protection and financial considerations against utilization of small neutral such as Switzerland and Belgium, we hope British eventually will accept Holland as most desirable alternative. We do not see why this arrangement should present serious political embarrassment to UK especially in view economic relationship between two countries and substantial UK interests in Shell operations. While we can understand British refusal consider US nationality, it appears that acceptance Dutch should not present any greater political embarrassment than acceptance, say, of Swiss. Iranians have indicated to us in confidence that while

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[1] Repeated to London.

[2] Telegram 2330, May 28, reported a British suggestion that the holding company for the new consortium be incorporated in the United Kingdom while the operating companies were incorporated in Iran. (888.2553/5-2854)

they continuing officially press for Iranian domicile of companies, they might be willing agree Dutch nationality.

3. Regardless country in which operating companies will be incorporated, it highly important in our judgment that companies headquarters be located in Iran. Consortium has recognized that, while effective management must be hands operating companies, agreement must provide some facade which will make it possible for Iran Government to claim that principle of nationalization law re control of oil industry has not been ignored. Location of head offices of operating companies outside Iran would create appearance Iranian oil industry not only out of hands Iran Government but being run by remote control from foreign country.

HENDERSON

No. 468

888.2553/5-2854 Telegram

The Secretary of State to the Embassy in Iran[1]

SECRET PRIORITY WASHINGTON, May 29, 1954—2:31 p. m.

2337. Department considers it essential Shah have no doubt regarding firmness United States support Zahedi and our deep concern at indications Shah may be considering change government present time. We fully endorse line you have taken with Shah and Ala (your telegram 2418 repeated London 733[2]) and urge you use every means maintain Shah's cooperation with Zahedi government.

. . . Hoover gave opinion Zahedi government prepared make oil agreement while many Shah's advisers such as NIOC officials were reluctant and obstructionist in attitude. Serious risk therefore if Zahedi government fell that new government would be less willing make reasonable oil settlement and Shah's irresolution would continue. In this connection Byroade made point that "make or break stage" seems to be approaching when we must be prepared take strong line with Shah who is key to Majlis acceptance agreement. It is particularly important therefore that United States . . . give . . . firm advice to Shah at this stage . . . .

DULLES

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[1] Repeated to London. Drafted by Stutesman, cleared with Hoover, and approved by Jernegan.

[2] Document 466.

No. 469

888.2553/5–3154: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET

TEHRAN, May 31, 1954—2 p. m.
[Received 9:16 a. m.]

2439. 1. On evening May 29 British Ambassador called on me in depressed frame mind. He said compensation negotiations "had gone sour". Amini had sent him word through Rouwani, legal adviser NIOC, who had been participating in conversations, to effect: (a) Iran could not agree UK suggestion that amount net compensation to be paid by Iran to AIOC should be decided upon without detailed examination by each side of claims and counterclaims. Necessary government be able explain to critics precisely how any amount compensation to be paid had been determined; (b) Iran Government in view strong Iran public opinion could not agree to consider AIOC claims for damages resulting from loss profits. In any event losses incurred by Iran during last three years as result of British blockade against Iran oil exports would exceed AIOC losses from failure receive Iranian oils; (c) Iran Government prepared examine with AIOC claims and counterclaims and if unable reach agreement it willing submit matter for arbitration. In opinion Iranian Government any fair tribunal would decide British owed Iran rather than Iran owed AIOC. (I made no note of statements made to me by British Ambassador and above may not be completely precise summary Amini's message. British Ambassador, however, is sending detailed telegram on subject which undoubtedly will be discussed with Embassy London and Department.)

2. British Ambassador told me he regarded this set-back as extremely serious, and was telegraphing his government certain suggestions as to what next British move might be. One his suggestions was that I be instructed to support such representations as he might be requested by his government to make. He said he hoped I would have no objections. I told him I would have no hesitation take up matter with Entezam and Amini, or both, if US Government should so desire. I thought however, such representation as I might make should be of informal nature free from detail. Obviously neither US Government nor I would be in position to argue re how much Iran might owe to AIOC or AIOC to Iran. It seemed to me however, that I might well discuss principles and stress that

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[1] Repeated to London.

statesmanlike attitude on part Iran re this matter likely improve atmosphere negotiations.

3. I told Ambassador that during my conversation with Shah on May 27 latter had remarked that in his opinion Iranian Government could not agree to pay compensation except for loss assets and that probably best way to settle this particular problem was for it be submitted to ICJ; that I had replied to Shah that I feared submission this matter to international arbitration would result in bitterness and recriminations and keep alive animosities just at time when oil industry should start up again in atmosphere mutual good-will. I added that I had also told Shah that matter compensation for loss assets in area concession was being handled in another manner and could not therefore in my opinion be basis British claims for compensation.

HENDERSON

No. 470

888.2553/5-3154 Telegram

The Ambassador in the United Kingdom (Aldrich) to the Department of State[1]

SECRET LONDON, May 31, 1954—1 p. m.

[Received 10:55 a. m.]

5432. Limit distribution. For Hoover. Foreign Office has shown us Eden's report his conversation May 29 with Iranian Ambassador Soheily, who went Geneva under instructions discuss nationality of proposed operating companies with Eden.

Main point made by Soheily was not only would British nationality be unacceptable to Iranian Government but companies must be Iranian. Eden indicated Iranian Government views would be considered but made no commitment. Certain other issues involved in oil talks, such as volume of production, were discussed but no decisions reached. Soheily also raised matter of compensation and suggested this be disposed of by equating Iranian and British claims. Eden told him this "would not do" and restated British position as put forward by Ambassador Stevens in his talks with Iranian Government on subject. Eden said British willing consider figure in neighborhood of one-half of the 300,000,000 pounds previously mentioned, and were awaiting Iranian Government reaction. Soheily suggested question be referred to single neutral arbitrator, say Belgian, for decision but Eden said HMG preferred continue direct negotiations.

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[1] Repeated to Tehran.

In latter connection Foreign Office disturbed at report just received from British Embassy Tehran to effect Iranians insisting on exhaustive review of all claims and counterclaims, which Foreign Office thinks will greatly delay settlement.

ALDRICH

No. 471

888.2553/5-3154 Telegram

The Acting Secretary of State to the Embassy in Iran[1]

SECRET NIACT WASHINGTON, May 31, 1954—8:16 p.m.

2343. Noforn. Limited distribution. Ambassador from Hoover.

1. It might perhaps be useful to point out to Shah that quite aside from other considerations, of which there many, effect of changing prime ministers at this time might seriously jeopardize oil negotiations for following reasons:

A. Over period of last nine months we have endeavored to convince US members of consortium that Iran now has responsible and stable government and that notwithstanding difficulties of past, companies can now look forward with confidence to (a) making very large investments in Iranian oil industry and (b) placing long-term dependence upon Iran as an alternate source of supply for their world-wide marketing commitments. An arbitrary change of government at this time, during most crucial period of the negotiations, would be regarded by them as casting grave doubt upon these basic assumptions. Unfortunately, it probable that authentic rumors of present situation will reach them in any event. Regardless of anything we may say to contrary, such rumors would tend to substantiate, in their minds, fears and reservations which have already been aroused by statements of irresponsible Iranian elements while consortium negotiating team was recently in Tehran. I believe it to be virtual necessity, if confidence to be maintained and oil solution reached, for Shah to offset this situation by personally taking strongest possible stand (a) backing up Zahedi Government and (b) supporting a realistic solution before public and parliament.

B. I have some doubts, parenthetically, that I could convince US members of consortium that they should start discussions all over again with a new government, after almost two months of patient (but frustrating) negotiations they have already gone through.

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[1] Repeated to London. Drafted and signed by Hoover and cleared in substance with Jernegan.

2. It seems to me that recent developments, precipitated by Shah, might give us opening to press an alternate approach and perhaps reach understanding which might not otherwise have been possible. We might insist, for instance, that before consortium negotiating team returns to Tehran certain concrete assurances from Shah and Zahedi Government would be necessary if negotiations to be continued. Points to be covered would include among others those outlined paragraphs 2 and 3 of Tehran's 2421 to Dept (735 to London, May 29),[2] along following lines:

(a) While we hopeful consortium can accept agency type agreement, if it did so then consortium would receive irrevocable right of effective management control over basic technical and commercial operations;
(b) Sales of crude oil by NIOC would be limited exclusively to amounts received under royalty provisions of agreement and would be credited at full posted price against 50/50 income to Iranian Government;
(c) Remaining commercial details of agreement would place Iranian oil in competitive position with respect to other substantial producing areas in Middle East;
(d) Agreement, if reached, would be unequivocally supported by Shah and submitted to parliament for ratification.

3. Proposed course of action outlined in paragraph 2 above has not been discussed with either consortium members or with British. Believe companies would probably welcome such approach, if successful, as means of avoiding further frustrating discussions with Iranians on these major points. Assume, if British were agreeable, they would insist upon participation in discussions with Shah and Government, and I see every reason for their inclusion.

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[2] On May 29 Ambassador Henderson reported that he had told the Shah that the U.S. Government had been able to persuade the five American oil companies to join Dutch Shell and AIOC in trying to reach an oil settlement; that he, Henderson, was confident the companies would go as far as they could without sacrificing principles which might ruin their operations elsewhere in order to find an agreement which was compatible with Iran's national aspirations. For example Henderson thought the consortium might be willing to agree to operate in Iran on an agency basis, provided the consortium's powers as agent would be irrevocable, it would control its technical and commercial operations in Iran, and other conditions of the settlement were acceptable to it. Henderson also said that the Shah should realize, however, that neither the companies nor other commercial organizations capable of marketing Iranian oil could possibly enter an arrangement which would not give them this effective management control. Therefore, Henderson hoped that if the consortium agreed on an agency basis, the Iranian Government would agree to allow the consortium effective control over operations. Otherwise, it would be useless to continue negotiations. (Telegram 2421, 888.2553/5-2954)

4. Tehran's comments are requested re feasibility of this approach.[3]

MURPHY

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[3] On June 1 Ambassador Henderson reported that the Shah the previous evening, May 31, had decided to give Zahedi full support and hoped the United States and United Kingdom would do likewise. Henderson also appreciated Hoover's suggestions outlined in telegram 2343. After careful consideration, however, he believed it was preferable not to adopt the course proposed for the following reasons: 1) if the approach were discussed with the British, they would likely insist upon the inclusion of additional conditions of primary interest to them regarding the nationality of the operating companies, the agreement on compensation, and others; 2) the first three items in paragraph 2 of Department telegram 2343 would involve negotiations at the governmental level which should, in Henderson's view, be negotiated by the consortium. Regarding paragraph 2 (d) of telegram 2343, Henderson said that both he and the British Ambassador made it clear to the Shah that the consortium had to insist upon an agreement being ratified by the Majlis, and that the Shah, Henderson thought, was persuaded of this necessity and would give his full support to Majlis ratification. (Telegram 2448; 888.2553/6-154)

No. 472

888.2553/5-2954: Telegram

The Acting Secretary of State to the Embassy in the United Kingdom[1]

SECRET PRIORITY WASHINGTON, May 31, 1954—8:21 p. m.

6477. Noforn. Limited distribution. From Hoover. Ref London's 5426 to Dept, 42 to Tehran, May 29.[2]

1. London please advise US company principals on confidential basis:

(a) We urgently require their views re nationality of operating companies soonest possible. Suggest Harden, Page or Long be shown Tehran's 2432 to Dept (736 to London May 29) with which I concur.[3]

(b) British Embassy requesting answer soonest from Dept to their inquiry this subject (Dept's 2330 to Tehran, 6435 to London, May 28[4]).

It believed desirable I remain Washington until reaction of US companies in London received here and this matter resolved.

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[1] Repeated to Tehran. Drafted and signed by Hoover and cleared in substance by Secretary of the Treasury Humphrey.

[2] Not printed. (888.2553/5-2954)

[3] Telegram 5441 from London, June 1, reported that Harden stated "categorically" that the U.S. companies opposed Iranian nationality for the operating companies under any circumstances and favored Dutch nationality. (888.2553/6-154)

[4] See footnote 2, Document 467.

2. Currency matter involving UK Treasury insistence upon detailed control over Iran Government conversion of sterling into dollars, irrespective of specified ceiling (Tehran's 2406 to Dept, rptd London unnumbered, May 27[5]), now under advisement by US Treasury at top level. They deeply disturbed by implications of UK Treasury attitude. Will report developments.[6]

MURPHY

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[5] Not printed. (888.2553/5–2754)

[6] On June 1 the Embassy in London reported that Embassy officers checked with British Treasury officials about the proposed currency arrangements between the British and Iranian Governments. Treasury officials said that Iranian sterling expenditure in both the transferable account and sterling area would be completely unrestricted and subject to no understanding regarding preference for the sterling area over the transferable account suppliers. Until there was sterling convertibility, Iran would make application to the Bank of England for dollar conversions, but every application would be approved unconditionally until the agreed limit was reached. The agreed limit was 40 percent of the total sterling income from consortium oil operations which would comprise tax, royalty, and local currency purchases by the consortium companies. Moreover, the British would exercise no preaudit or current supervision over Iranian use of foreign exchange. In conclusion, the Embassy in London, in view of the foregoing assurances from the British Treasury, believed there was no basis for the U.S. Treasury to be "disturbed by implications of UK Treasury attitude". (Telegram 5443; 888.2553/6–154)

No. 473

788.5/6–554: Telegram

The Ambassador in Iran (Henderson) to the Department of State

TOP SECRET TEHRAN, June 5, 1954—3 p. m.

2479. 1. During my last two conversations with Shah May 27 and June 1, he stressed his anxiety at delays in reorganizing Iranian Armed Forces on basis which would give them defense capabilities. He said it had been almost eight months since he had first discussed matter with me and almost three months since I had told him that US Government thought that Iran should have certain defense capabilities. He had discussed matter with General McClure as I had suggested; he understood that General McClure had been working on plans and had sent certain suggestions to Washington. For some reason, however, which Shah could not understand nothing concrete seemed happen. He beginning wonder whether US Government seriously interested assisting Iran in creating Iranian army which would play role in Middle East defense. Were there differences within US Armed Forces or between US governmental departments as to role which Iranian Armed Forces might or could play; were differences between US and UK Governments responsible for what appeared to be indecisiveness and delays? In his opinion time pressing. For moment eyes free world focused on Southeast Asia. Spotlight might at any time, however, shift to Middle East. He said that if US Government did not seriously intend without delay to help Iran create armed forces capable defensive action, he hoped he would be told so frankly so he and his country would know what to expect.

2. I told Shah there could be no doubt US Government ascribed much importance to Iran's potential contributions to Middle East defense. It my understanding General McClure had made certain recommendations to defense authorities in Washington and was awaiting their reaction. His Majesty could realize that questions this kind highly technical; many factors to be considered. I sure he would agree it important correct basis be laid for reorganization Iranian Armed Forces. All of us might have cause later to regret overhasty action. In meantime it seemed to me emphasis might be placed on energetic training so various units could learn to make most effective use of weapons which they already had and to take best advantage of Iranian terrain. Shah said chief of staff endeavoring activate training activities but handicapped by lack funds. Iranian budget unable at present finance kind of training he would like to see troops have.

In his opinion Army doing best it could in matter training with limited means its disposal.

3. General McClure in series of telegrams to Department Army[1] has made number recommendations re strengthening and supplying Iranian Armed Forces. I confident these recommendations being given careful and sympathetic consideration and hope it will be possible for decision to be reached without protracted delay which sure further discourage Shah and other Iranian leaders responsible for defense Iran.

HENDERSON

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[1] None found in Department of State files.

No. 474

888.2553/6-754: Telegram

The Ambassador in the United Kingdom (Aldrich) to the Department of State[1]

SECRET PRIORITY LONDON, June 7, 1954—11 a. m.

5559. Limited distribution. From Hoover.

1. At meeting with US company principals in London afternoon June 6, it apparent that difficulties re acceptance of agency type agreement revolve largely around accepted legal definition of "agent".

2. Lawyers for all consortium companies state definition of "agent" as used by Iranians in their May 16 "memorandum on agency"[2] (namely relationship "principal to agent" or "master to servant"), also generally accepted definition in legal sense in all other countries.

3. Such term, in absence of specific qualification to contrary, would in itself be incompatible with kind of effective management control Iranians apparently willing give to consortium, and which consortium regards as one of "indispensable minimums" in any agreement. Otherwise use of word "agent" would undoubtedly lead to conflict in later years on entire validity of provisions granting such management control.

4. Lawyers advise that if effective management to be assured, use of terms "agent" or "agency" would have to be specifically defined in terms contrary to legally accepted usage. Question becomes, therefore, if such qualification would be acceptable to Iranians as a prerequisite to granting effective management, otherwise such grant could become meaningless.

5. Final document would therefore have to say expressly and plainly that consortium would act as agent for Iran, but only in sense and to extent specifically provided for in contract, and that provisions for management by consortium and for supervision by Iranians (as already set forth during negotiations) would be unaffected by such "agency" relationship.

6. Inasmuch as above concept may not be compatible with nine-point law, from strictly legal standpoint, it considered essential by consortium that all understandings be embodied in final document,

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[1] Also sent to Tehran.

[2] The record copy of the Iranian document entitled "Memorandum on Agency", dated May 16, is in the folder entitled "Documents Relating to Negotiations With Iran Apr. 14, 1954 to May 18, 1954," in file 888.2553/4-1454.

and that entire document be ratified by parliament, unequivocally approved by Shah, and be made public.

7. Consortium will therefore authorize negotiators to go to Iran and to accept agency type agreement, but only with proviso that above qualifications included. It my feeling that much depends upon final wording used, and while consortium will make every effort to preserve Iranian sensibilities, consortium will not depart from principles involved.

8. Ambassador Henderson's comments re (a) desirability of consortium negotiators returning to Tehran with above qualifications upon right to accept agency type agreement and (b) probable acceptability by Iranians of above points urgently desired. Consortium, of course, feel that clear-cut grant of effective management control is matter of overriding importance.[3]

9. Department please pass soonest to Secretary Humphrey and Secretary Anderson for discussion probably taking place June 7 or 8 with company principals now in US.

ALDRICH

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[3] On June 7 Ambassador Henderson responded that he feared it would be extremely difficult if not impossible for the Iranian negotiators to agree to wording exactly like that set forth in paragraph 5 of telegram 5559. The Iranians would probably believe that such phrasing would, in essence, nullify the statement that the consortium would act as agent. If the Iranians agreed to the proposed consortium wording, Henderson did not believe the Majlis would ratify it. Henderson also thought it would be preferable for the consortium negotiators not to be saddled before their arrival in Tehran with hard and fast wording, but that they should be given a degree of flexibility which would make it possible for them together with the Iranians to find expressions acceptable to both sides. (Telegram 2490; 888.2553/6-754)

No. 475

788.13/6-1154: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET **PRIORITY** TEHRAN, June 11, 1954—5 p. m.

2513. 1. I called on Ala, Minister Court, June 10 at his request. He told me Shah had flown in earlier in day from Ramsar where latter was vacationing and would fly back later in afternoon. En route from airfield to Palace Shah had expressed himself as deeply disturbed at continued deterioration prestige government partly as result further additional errors in judgment on part of Prime Minister and tactless way in which Prime Minister was dealing with members Senate and Majlis. Shah had asked Ala to get in touch with me immediately in order deliver message to effect that both Majlis and Senate becoming so hostile to government Shah feared he could not hold them much longer in line. . . .

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[1] Transmitted in two sections; repeated to London.

2. I asked what development had led to Shah's new concern re position Zahedi government. Ala said that criticisms of government because of its alleged corruption had been steadily increasing and public provisions should not be accepted. He asked Ambassador's opinion. Ambassador replied to effect he had not discussed matter with either British or Iranians and was not aware any such suggestion had been considered. However, he felt Iran Government would understandably want, perhaps within some limitation as to quantity, freedom in making its own decisions re dollar expenditures. This conversion not mentioned to British.

(a) It had recently released two extremely dangerous nationalists, Razavi and Shayegan, collaborators with Mosadeq, who had returned to their homes in blaze triumphal celebrations in which Tudeh Communists had participated. They already engaging in activities against government. Their release had convinced nationalists and Tudeh that government was weakening. I told Ala I had been informed that Shah responsible for their release. Ala said his understanding was that Shah had insisted that Sadeqi, former Interior Minister under Mosadeq, be released since Sadeqi merely honest, naive professor loyal to Shah who had been misled by Mosadeq. Minister however had taken position that Sadeqi in same category as Razavi and Shayegan and therefore he must release all three;

(b) Baqai, former deputy and leader so-called Toiler's Party, had been arrested several days ago in Kerman and interned in south Iran. Following agitation among members Majlis and Senate, government had reversed its decision and released Baqai. As result Baqai's prestige had grown and that Prime Minister had declined. It was stupid Prime Minister to have arrested Baqai in first place. I told Ala I had heard Baqai was arrested because he was trying to stir up mob violence in Kerman during course election campaign and that he had been released as result intervention Shah. Ala said his information was that although Shah might have told Prime Minister that in his opinion it had been a serious political mistake to arrest Baqai nevertheless Shah had not suggested Baqai's release;

(c) In recent appearances before closed session of Senate Zahedi had taken arrogant attitude which had angered even his friends.

3. I told Ala that I thought change of Prime Ministers at present time would be injurious to Iran's international position; it would raise doubts re Iran's ability law and order; it would certainly have adverse effect upon oil negotiations. I was convinced that if Shah would adopt firm attitude in dealing with critics of Prime Minister and in giving guidance to Prime Minister present storm would

blow over and government would be able to proceed with important business of oil negotiations.

4. Ala said protracted absence of consortium negotiators had had weakening effect on government. Its enemies were spreading stories that negotiations had broken down and that there no hope government could find solution oil problem. Consequently nationalists and Tudeh elements were triumphantly insisting that Mosadeq had been right after all. Ala asked if I thought there was still chance Zahedi government be able reach agreement with consortium. I replied in affirmative adding I thought consortium negotiators would return Tehran within next ten days.

5. I told Ala I afraid government could do little in present circumstances with meager means at its disposal to check rise in costs of living which were primarily results Mosadeq's policies. I thought it should, however, explain situation to public. I also thought it should take emergency action to convince public it opposed to corruption. . . .

6. Ala expressed agreement . . . . I saw Ala later at dinner. He told me Shah had again decided to continue giving full support to Zahedi and would insist that Prime Minister come out vigorously against corruption.

Shah had agreed it would be good idea for Panahi to be relieved but did not seem enthusiastic at idea Ebtehaj being his successor.

HENDERSON

No. 476

888.2553/6-1554: Telegram

The Ambassador in the United Kingdom (Aldrich) to the Department of State[1]

SECRET LONDON, June 15, 1954—7 p. m.

5750. Limited distribution. From Hoover.

1. At large meeting in Foreign Office attended by representatives all members consortium, all interested departments British Government and by Embassy representatives, Page (as spokesman) negotiating group outlined consortium position on principal points of interest.

2. Consortium has agreed serve as agent NIOC Iranian Government subject to definition of agent and principal as indicated in

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[1] Repeated to Tehran.

document previously summarized in Embassy telegram 5616 repeated Tehran 254.[2]

3. Consortium will seek agreement for British holding company, Dutch operating companies and British service company, latter to take care purchases, engineering, etc.

4. In response to question whether consortium would go further on volume of production, Page answered a little but not much, also would not guarantee annual payments but would guarantee rate per ton. He stated no member company willing make advance payments and consortium hopes governments can deal with this problem. Consortium might under some conditions be willing raise royalty oil percentage but hopes to avoid this on grounds no disadvantage to Iran in lower figure and some advantage to consortium.

5. British Treasury representative explained main points UK-Iranian currency understanding in course of which asked in what currency consortium expected make local currency purchases. When told sterling would be used, said this satisfactory. He offered assist consortium if it ran into difficulty on the question of the sterling-rial exchange rate since Treasury considers its understanding with Iran on this point satisfactory.

6. Consortium raised question whether some specific basis for diplomatic protection for consortium interests would be negotiated perhaps by exchange of notes between Iranian Government and government's consortium members. British said they working on this. We said would refer matter to Department (London's 5748 to Department, 262 to Tehran June 15).[3]

7. On publicity, agreed only say consortium representatives departing Saturday. Statement for use on arrival would be coordinated beforehand with Tehran. No response to other inquiries at this stage.

8. I leave London for Tehran morning June 16, stopping Geneva en route several hours. Consortium leaving London evening June 19, arriving Tehran following morning.

ALDRICH

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[2] Not printed. (888.2553/6-954)

[3] Not printed. (888.2553/6-1554)

No. 477

888.2553/6-1654

Memorandum by the Acting Assistant Secretary of State for Near Eastern, South Asian, and African Affairs (Kennedy) to the Secretary of State[1]

TOP SECRET WASHINGTON, June 16, 1954.

Subject: Status Report on Iran Oil Negotiations

Mr. Hoover is concluding his discussions in London today and is proceeding to Iran. Representatives of the various companies in the proposed consortium will follow by the week end. The following is the current status of the principal problems:

(a) Difficulties regarding the acceptance of an agency type of agreement revolve around the definition of "agent", which, unless defined, may lead to a conflict with provisions granting the consortium effective control of management. Mr. Hoover and Mr. Phleger are optimistic that wording can be worked out which will protect the consortium's position and still be acceptable to Iran.

(b) *Nationality of consortium*—The United States is opposed to British nationality of the operating companies. The consortium will seek agreement for UK holding company, Dutch operating companies, and UK service company, the last to take care of purchases, engineering, etc.

(c) *Management of consortium*—AIOC has already accepted principle of Dutch managing director with first subordinate to be American, second British, and balance of top management Dutch.

(d) *Headquarters of consortium*—U.S. companies and Shell firmly support Iranian headquarters. AIOC and French appear still determined on headquarters in London. However, Mr. Hoover thinks it likely their position on this will be modified.

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[1] Drafted by Richards.

No. 478

888.2553/6-154 Telegram

The Secretary of State to the Embassy in the United Kingdom[1]

SECRET WASHINGTON, June 17, 1954—6:24 p. m.

6903. Deptel 6477, Embtel 5443.[2] Burgess and members of State and Treas. met with British Amb, Rickett and Hall-Patch concerning proposed restrictions upon Iranian use sterling proceeds from consortium. US position was that discrimination against dollar imports within 40% convertibility limit was unnecessary and undesirable and could have unfortunate consequences. US also proposed dollar debt service and amortization be met with convertible sterling without necessity UK approval.

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[1] Repeated to Tehran. Drafted and signed by Corbett.

[2] See Document 472 and footnote 6 thereto.

With respect first question British Amb said they were motivated by two factors: (1) necessity holding down dollar burden and (2) relations with other oil-producing countries such as Iraq and Kuwait.

US side pointed out special circumstances surrounding Iran and requested British to review necessity requiring undertaking by Iran convert sterling only when necessary to procure goods and services essential to Iranian economy and when such goods and services cannot be obtained elsewhere on equivalent terms.

British promised to raise above matters with London. It was emphasized Secretary Humphrey had taken strong interest in this matter.

DULLES

No. 479

888.2553/6-2354: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET TEHRAN, June 23, 1954—7 p. m.

2575. Limited distribution. From Hoover. Consortium representatives report upon first meeting with Iranian delegation evening June 22[2] as follows:

1. Consortium stated it would not continue ask for lease type agreement and would be satisfied with one based on purchase and sale of oil on condition other provisions of agreement satisfactory. Consortium proposed that contract document not use words "agent" or "agency" in describing relationship between Iran/NIOC and consortium, but instead should outline factually respective rights and obligations each party. Minister Finance Amini stated Iranians would take under advisement. (Later in evening at casual meeting Amini intimated he most hopeful "formula" could be found acceptable both sides; that since substance of arrangement generally agreed, problem of finding suitable words should not be insurmountable.)

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[1] Transmitted in two sections; repeated to London.

[2] The record copy of the minutes of this meeting is in a folder entitled "1st, 3rd, 4th, 5th Mtg. Second Phase", in file 888.2553/6-2254.

2. Consortium outlined proposed organization consisting (a) Dutch operating companies having full management powers, (b) Dutch managing director and entire top management staff domiciled in Iran, (c) British holding company with limited powers over operating companies, and (d) British service company, responsible only to operating companies, to carry out purchasing and engineering functions necessary in UK. Iranians mildly expressed preference for Iranian incorporation, and while reserving judgment took encouraging attitude. Consortium representatives' impression was that Iranians will agree to arrangement but need explanations which they can use publicly as to why Iranian companies unacceptable. Finance Minister did not appear greatly impressed with strength of argument put forward by Page that local incorporation would establish precedent dangerous to consortium's operations in other countries.

3. Consortium proposed moderately increased offtakes, namely 12.5, 20 and 30 million tons in first three years respectively, compared to previous maximum offer 10, 20 and 25 million tons. Iranians expressed keen desire for higher offtake guarantees, especially for period following third year. Consortium submitted brief written statement saying it would be "policy" to increase offtake from Iran in accordance with supply and demand for Middle East crude, assuming favorable operating and economic conditions existed in Iran. Iranians obviously expect more and will undoubtedly trade strenuously. When consortium was asked if it would make financial loans or advances to offset "restricted" offtake during early years, representatives replied they unable do so themselves in view surrounding circumstances, and suggested matter financial needs over and above oil proceeds might properly be function of interested governments. They offered, however, pay crude royalties and taxes on monthly basis rather than annual.

4. Consortium stated above proposals conditional upon receiving full rights for basic operation management and 40 year term for contract. It our impression both management and term are sticking points with companies. On matter of 40 year term, consortium representatives state to us that compromise on purchase and sale type agreement already constitutes major concession with possible unsettling effects in other countries, and that if most serious repercussions are to be avoided term must be comparable with concessions elsewhere. Furthermore, state they specifically instructed by principals accept nothing less than 40 years.

5. Consortium stated to Iranians that some other aspects of deal such as prices (i.e. discount), etc. might be "adjusted" if necessary, but agreement on points enumerated in above paragraphs should be reached in principle first, otherwise discussion other problems

would be waste time. Iranians made no comment but we doubt they will give up opportunity trade to advantage on some minor problems in process working out major ones.

6. It general reaction of consortium representatives that both sides reasonably satisfied outcome first meeting and optimistic ultimately achieving agreement. Our contact with Iranians tends substantiate this as their own attitude also, although it certain that difficult trading will develop in coming meetings.

7. US company representatives ask Department not communicate contents this or other Embassy telegrams reporting progress negotiations to principals in US unless specifically requested do so.

Henderson

No. 480

888.2553/6-3054 Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET TEHRAN, June 30, 1954—1 p. m.

2611. Noforn. Limit distribution. From Hoover.

1. Negotiating delegations have held five formal meetings between June 22 and 29.[2] Discussions primarily confined to (a) management, (b) organization, nationality and functions of operating companies, (c) term of agreement and (d) volume of off-take. Both consortium representatives and Iran dels feel much progress accomplished on basic issues and appear optimistic about reaching satisfactory solution. Discussions apparently being conducted in cordial atmosphere and spirit goodwill evident on both sides notwithstanding difficult bargaining involved.

2. We not reporting meetings in detail as discussion on basic issues not yet in final or definitive stages. Lengthy memos submitted by both sides being pouched rather than cabled since in most instances they represent interim bargaining positions and not necessarily points of agreement or disagreement at this time. Department may wish refer to Embtel 2602 June 28[3] from US company representatives to principals in New York for consortium delegation's evaluation of proceedings to date.

3. At this time it appears that most difficult and potentially critical problem on horizon is compensation negotiation between Iran

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[1] Also sent to London.

[2] The record copies of the minutes of these meetings, are in a folder entitled "1st, 3rd, 4th, 5th Mtg, Second Phase", in file 888.2553/6-2254.

[3] Not printed. (010.1/6-2854)

and UK Governments. To Iranians this has become political problem of first magnitude. After many years during which Iranian people, rightly or wrongly, were led to believe they had been shortchanged by AIOC, followed by three years of nationalization in which demagogues continually asserted vast sums were due from former operators, public would regard any appreciable payment to AIOC on basis latter's claim as an exaction of tribute under force of their present circumstances rather than equitable compensation for net damages sustained by AIOC since 1951. In our opinion peremptory demand for payment of any sum approximating 100 million pounds would have most serious effect on ability to consummate final consortium agreement. Even if solution achieved we believe it would cast shadow of most critical nature on durability of any contract, no matter how favorable to Iran agreement might be. Such development would be open invitation to every demagogue and subversive element in Iran to challenge equity of solution.

4. We particularly disturbed, therefore, to learn from confidential sources that Finance Minister Amini stated that on evening June 28 at informal meeting between himself and British Ambassador, latter delivered what Iranians considered to be ultimatum re compensation settlement. Iranians apparently were told that substantial compensation must be paid, regardless of merit of any counter claims, and that this position supported by all other interested governments, including by implication US Government.

5. Reaction of Iranians, as conveyed to us, was that if their government negotiators forced to accede to such demand, they would simply present consortium and compensation proposals to Majlis with no other comment than that this was best deal that could be negotiated at present time. Reaction of Majlis certain to be explosive. On other hand until this development Iranian Government representatives had given every indication of aggressively supporting results of consortium negotiation before Majlis and public, even though it contained number distasteful features.

6. It our preliminary view that any sum in excess of value Naft-I-Shah oil field, Kermanshah Refinery and internal distribution facilities would present difficulty, and that agreement under which Iran would pay in excess 15 million pounds including such facilities would provoke serious consequences.

7. It may be that report we have received on attitude British Ambassador was exaggerated; moreover there possibility British in any event may come to realize seriousness of matter and essentiality assuming more realism in their compensation negotiations. We do not suggest at this time that further representations be made by Department to UK Government but we will prepare make specific recommendations on basis developments.

Ambassador Henderson concurs.

HENDERSON

No. 481

[illegible] Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET PRIORITY TEHRAN, July 1, 1954—5 p.m.

10. 1. British Ambassador morning July 1 said he would like to discuss with me matter causing him "grave concern." Difficulties had arisen in Washington re payments which might eventually result in blocking or delaying solution oil problem. He described in some detail contents telegram recently sent by Makins to British Foreign Office in which Makins outlined conversation which had taken place Secretary Humphrey and himself.

2. According to Makins, Humphrey had expressed himself in strong although friendly fashion re proposed payments arrangements. Among points which Humphrey apparently had made were following:

a. As result nationalization and subsequent developments, AIOC had completely lost its investments in Iran. American companies although having no need for Iranian oil had come to rescue of AIOC. They had even agreed to pay AIOC $1 billion to participate in consortium. In order make consortium workable they would be compelled to curtail oil production in various other countries in Middle East. In spite of these arrangements, which were most advantageous to UK and to AIOC, it now seemed UK was demanding that it be put in position of virtual control Iranian foreign trade as result of mechanism being set up by UK-Iranian payments agreement. US Congress would certainly protest when all facts would eventually become known;

b. Hoover who was American representative in charge all US matters pertaining to oil settlement and to payments arrangements had discussed with Humphrey payments problem during his recent visit US. At that time it had appeared that 40 percent of Iran's income from oil would be freely convertible into dollars for foreign trade purposes. Subsequently however memorandum received from British Government describing payments arrangement had made it clear that UK was demanding that Iran not spend even dollars within 40 percent limits until after Iran had ascertained it could not obtain merchandise and services in sterling areas on equally advantageous terms. Thus, UK planned to try to restrain Iran from converting even 40 percent of sterling revenues received from oil into dollars for foreign trade purposes;

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[1] Transmitted in two sections; repeated to London.

c. Humphrey was convinced that Iran had agreed to enter into arrangement of this kind not of its own free will but only under pressure.

3. British Ambassador pointed out to me that:

(a) US companies were required to pay only $400 million in sterling instead of one billion in dollars to AIOC and that most of these $400 million would be in form of installments to be paid over period twenty years and would come largely from Iranian oil business profits;

(b) British Government was not trying to obtain control of Iran's foreign trade even though it was formally taking attitude that Iran should promise that such dollars as it might receive from sterling should [garble] to buy goods and services only in case such goods and services could not be purchased just as advantageously in sterling area. There was no way by which UK could force Iran to live up to this promise and UK had no intention of trying to do so with 40 percent limits. It was true that probably at intervals there would be *post facto* examination by UK of expenditures Iran of dollars received from sterling in order ascertain extent to which Iran living up to its promise. Nevertheless in fact Iran would be quite free to use its own judgment re expenditure first 40 percent;

(c) Iran had voluntarily and without demur agreed to enter into this arrangement. He would appreciate knowing whether US Embassy had received any information due fact that Iran had agreed to this arrangement only under pressure.

4. I told Ambassador that: (a) Hoover, as an American official was interested in American trade potentials in Iran. I was confident, however, he was not submitting any reports or making any suggestions re payments problem which differed from those made by Embassy; (b) it seemed to me that what primarily disturbed Humphrey was fact that Iran was not being given completely free hand to convert first 40 percent into dollars and to spend these dollars in any way it wished. Humphrey undoubtedly considered that Iran's pledge not to use these dollars to purchase goods and services if such goods and services could be purchased just as advantageously in sterling areas plus fact that all transactions might be subjected to *post facto* review restrained Iran from spending dollars within 40 percent limits as it wished. I personally thought that Humphrey would feel much better about this payments agreement if he could be convinced that Iran would be allowed to convert 40 percent of sterling revenues into dollars and to spend these dollars with no conditions attached; (c) Embassy had received no information from any Iranian source that Iran had agreed to enter into this payments arrangement only under pressure and had not indicated to Washington that Iran had been subjected to pressure. Fact was Embassy had not discussed payments problem with Iranian officials; (d) Embassy had received no information from Washington

re conversations which had taken place between Makins and Humphrey and I was therefore not prepared to comment re them. It would seem to me, however, that contents of memorandum which British Government apparently had furnished US Government outlining proposed payments arrangements had left impression with Humphrey that Iran was to be placed under certain restraints voluntary or otherwise in spending any dollars whatsoever which it might receive from converting sterling acquired by Iran from sale of oil. It seemed to me that it would be helpful if UK Government could convince Humphrey that such restraint in fact did not exist.[2]

6. After I had concluded my conversation with Ambassador he told me that he had asked Beckett, Ambassador's petroleum advisor, to discuss this matter directly with Hoover and that Beckett was carrying on simultaneous conversation at US Embassy with Hoover. On my return to Embassy I learned that Beckett had gone over practically same ground with Hoover in presence Rountree and that Hoover and Rountree in their discussion with him had taken positions almost identical with those which I had assumed in my talk with Ambassador.

7. Members Embassy and Hoover, realizing that discussions were probably taking place in Washington, have carefully refrained since Hoover's return from broaching payments problem during various talks with British. Such conversations as we have had have taken place only on initiative British and have been reported to Department. During our parallel discussions of today we have tried exercise care not to make statements which might in any way complicate talks in Washington. Hoover and I would appreciate it if this telegram could be shown Humphrey.

HENDERSON

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[2] The following note appears on the source text: "Message received without numbered paragraph 5. Will be serviced on request." No evidence could be found in Department of State files that such a request was made.

No. 182

Eisenhower Library, Eisenhower papers, Whitman file

Memorandum by the Secretary of State to the President

CONFIDENTIAL WASHINGTON, July 3, 1954.

Subject: Proposed Visit to the United States by the Shah of Iran

The Shah of Iran has told Ambassador Henderson that he and the Queen want to make an informal and unofficial visit to the United States this fall after an agreement is reached in the oil dispute. He has also indicated that he might wish at that time to discuss informally with appropriate officials our views as to Iran's future role in the defense of the Middle East.

It would be most difficult to refuse to welcome the Shah. In my opinion, moreover, his visit, if handled appropriately, would be to the net advantage of the United States. I, therefore, suggest that Ambassador Henderson be authorized to inform the Shah that a visit to the United States would be welcome along the following lines: (1) that there is an oil settlement; (2) that the visit would be official only for the three days which he would spend in Washington and would then become unofficial for the rest of his American tour; and (3) that appropriate officials of the Government would be prepared to discuss privately and informally subjects which the Shah might raise, provided the Shah's views on these subjects were made known to us in advance.

Since the exact date of the visit cannot be determined until after an oil settlement is reached, I suggest that we leave this question to be worked out by the Department at a later date in accordance with your schedule. Your participation could be kept to a minimum.

If you concur, I shall inform Ambassador Henderson accordingly.[1]

JOHN FOSTER DULLES

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[1] The following handwritten note by the President appears on the source text: "O.K. But in no event to be earlier than Nov. 1." In a memorandum dated July 6, Ann Whitman, the President's personal secretary, informed Secretary Dulles of the President's decision. (Eisenhower Library, Eisenhower papers, Whitman file) The Secretary informed Ambassador Henderson the following day, July 7, in telegram 35, to notify the Shah of the President's approval in principle of a visit. (788.11/7-754)

No. 483

888.2553/7–654: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET TEHRAN, July 6, 1954—2 p. m.

35. Noforn. Limited distribution. From Hoover.

1. Negotiating group continue hold formal meetings almost daily during period June 29 to July 5. Consortium and Iranians both appear feel constructive progress being made.

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[1] Repeated to London.

2. Appears that satisfactory agreement in principle reached on problems incidental to (a) management and (b) organization, nationality and functions of operating companies. It still necessary work out formula and wording satisfactory both sides setting forth mutual relationships involved in proposed purchase and sale-type contract. Iranians still proposing that consortium should operate exclusively on behalf of Iran/NIOC while consortium desires statement setting forth principle of operation "on behalf of and for mutual benefit of both parties". It my impression satisfactory solution will be found shortly as Iranians frankly admit it primarily problem finding words not offensive to Majlis and public.

3. Some discussions undertaken on volume of offtake, price (i.e., discount), term of agreement and other related problems, and while considerable difficulties remain, it my impression compensations not too far apart.

4. British Ambassador reports, on basis recent compensation talks, delegations now examining into Iranian counterclaims and he hopeful Iranians agreeable to lump-sum payment in interest of satisfactory and rapid solution. So far, we have received no substantiation this attitude on part of Iranians. Suggest Department continue take no action this phase of negotiations for present.

5. If Embassy London can from time to time advise us re any information it obtains, without making pointed inquiry, concerning HMG intentions re compensations negotiations, it would be helpful in evaluation of situation locally.

HENDERSON

No. 484

888.2553/7-854: Telegram

The Secretary of State to the Embassy in Iran[1]

SECRET WASHINGTON, July 8, 1954—6:04 p. m.

44. From State and Treasury. Humphrey received personal letter from Makins dated July 3 setting forth UK views re US request for modification proposed currency conversion agreement between UK and Iran. Major points Makins' letter follow:

1. UK had made clear at outset of negotiations that it intended limit Iranian conversions to cases where goods essential and not obtainable on equivalent terms outside dollar area.

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[1] Also sent to London. Drafted and signed by Corbett.

2. UK believes that US Government and US companies were motivated by their own interests in providing financial and other assistance in reaching settlement.

3. Loss Iranian oil cost UK approximately $500 million over three-year period. British consider $60 million down payment from American members of consortium "slight offset" to this dollar drain and not justification for increasing dollar burden to be assumed under new arrangements.

4. Estimated net additional cost to sterling area reserves after taking account dollar savings expected as result resumption operations in Iran estimated $40 million in first full year rising to $55 million in third year. American members able to participate in consortium only by reason special arrangements enabling them sell oil for sterling. All consortium payments to Iran being made in sterling, it is reasonable to impose limit on conversion rights. UK could not justify to Parliament and other oil-producing countries in sterling area agreement giving Iran more favorable treatment than sterling area oil producers, particularly in light of past Iranian actions. UK has requested 40 percent conversion ceiling figure be kept secret for fear repercussions in other countries.

5. Agreement does not involve "trade preference" for UK or other sterling area countries as against non-sterling, non-dollar countries. If plans for sterling convertibility are successful, Iran will be given same privileges as other non-sterling countries. Meantime, however, UK cannot treat Iran better than other countries.

6. UK estimates Iran will be able to draw $34 million from sterling area reserves in first year of agreement and $84 million in third year. Except for these conversions, Iranian purchases American goods would be limited to amounts US aid plus Iranian dollar sales of commodities other than oil.

7. Iranians have informed UK that proposed conversion arrangements are "fair and just", although undoubtedly would seek even better terms if they believed US would support such request. Given fact that some limitation on conversion was required, Iranians themselves preferred wording of present proposal because it was same as wording of previous agreement. Iranians also asked that paragraph 5 dealing with continuation of agreement take present form.

8. Question of conversion sterling for servicing dollar loans not formally discussed with Iranian Government and no decision yet reached by UK. UK fully prepared reach friendly understanding with Iran on lines UK hopes will be agreeable to US "provided that the rest of the agreement remains undisturbed". US reaction to letter will be cabled subsequently.

Supplemental note dated July 6 states British believe Iranians anxious discuss final draft. British proposed proceed these discussions although no final commitments expected. Servicing dollar loans to be explored.[2]

DULLES

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[2] On July 14 the Department informed Ambassador Henderson that the Department of the Treasury had reported that Secretary Humphrey had had another conversation on July 13 with Ambassador Makins to clarify Humphrey's understanding of the British-Iranian currency arrangements. Humphrey repeated his opinion that there should be no restrictions on the 40 percent conversion arrangements in view of the extensive assistance the United States had provided to the Iranian economy and in view of the active cooperation of the U.S. Government and the American oil companies in trying to work out an oil settlement. Humphrey indicated that anything less than unrestricted rights of conversion would probably mean that American suppliers would be obliged to undersell competitors from all other areas in order to share in the Iranian market. Ambassador Makins, it was reported, agreed to give further consideration to Humphrey's views. (Telegram 93; 888.2553/7-1454) No documentation has been found in Department of State files to indicate that the British Government modified its position with respect to its proposed restrictions on sterling conversion arrangements in order to accommodate the wishes of the United States.

No. 485

[788.00/7-3054]

Memorandum by the Acting Special Assistant to the Secretary of State for Intelligence (Howe) to the Secretary of State

SECRET WASHINGTON, July 30, 1954.

Subject: Intelligence Note: Political Prospects in Iran

Although within recent weeks the prospects have improved for the retention of Zahedi as Prime Minister following Parliamentary ratification of the oil agreement, there remains the possibility that he will be removed sometime thereafter as a result of growing pressure by other politicians for a chance to profit from office. The fall of the present Zahedi regime would not, however, necessarily lead to a basic change in the country's existing balance of political power.

Political power in Iran is currently shared, as it was before Mosadeq's ascent to power, by the Shah and the large landowning families. In turn, they control the civil government and defense forces, and could therefore select a successor to Zahedi. If the Shah was removed or assassinated, however, the Iranian Army, whose political outlook cannot be clearly determined and whose officers constitute by no means a united corps, would probably emerge as the dominant power in government.

The present power structure is being maintained by (1) the continuance of martial law particularly in Tehran, the Abadan area, and along the railroads; (2) the enforcement of strict press censorship which muffles public criticism; (3) the active and continuous use of the security forces to control assemblages and demonstrations and to ferret out and imprison Tudeh and other subversive elements; (4) the provision of US emergency aid and political support; and (5) the continuing expectation that the current oil negotiations will result in a solution favorable to Iran.

In the longer run, however, this balance is likely to be broken by the persistence of fundamental political and social trends which neither the Shah nor the landowning groups will be able to alter. The new urban groups, for example—especially intellectuals, professional men, merchants, and workers—will probably grow in importance as the force of traditional social relationships and beliefs diminishes in the continuing encounter with Western modernism. With increasing intensity, these new groups will demand at least as great a share in political power as they had under Mosadeq.

A similar memorandum has been sent to the Under Secretary.

FISHER HOWE

No. 486

888.2553/7-3054 Telegram

The Ambassador in the United Kingdom (Aldrich) to the Department of State[1]

SECRET

LONDON, July 30, 1954—6 p. m.

549. Re Embtel 541, July 30.[2] Foreign Office confirms information contained first paragraph reference telegram. Stevens will attempt persuade Iranians to (1) increase compensation to pounds 30 million, and (2) reduce payment period to 12 years. First payment would be due 2 years after date of agreement, with annual payments next 10 years thereafter. Foreign Office points out this time period not in conformity with point (3) US-UK memo of under-

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[1] Repeated to Tehran.

[2] In telegram 541 Ambassador Aldrich informed the Department and Ambassador Henderson that the AIOC directors the previous day had considered the Iranian compensation offer; that he, Aldrich, believed the AIOC had decided to accept the present offer if necessary but hoped to raise the amount by five million pounds and to shorten the payment period. If this effort failed, however, it was Aldrich's view that the British would not allow the compensation issue to drag beyond the negotiation of the consortium agreement. (888.2553/7-3054)

standing (Embtel 4178, March 26, 1954) but hopes UK will not object, in view of much smaller sum than originally contemplated.

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ALDRICH

No. 487

888.2553/7-3154 Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET

TEHRAN, July 31, 1954—3 p. m.
[Received 10:45 a. m.]

241. 1. British Ambassador tells me that agreement has been reached with Iranians re lump sum compensation, Iran to pay 25 million pounds during 10 years beginning January 1, 1957.

2. There may be some difficulties which he does not regard as serious re drafting. For instance, British draft will contain following provisions in substance:

a. Iran will owe in compensation AIOC 76 million pounds.

b. AIOC, as matter of equity, will deduct from this amount 51 million pounds (referred to in previous year as 49 million pounds) which AIOC would have paid to Iran if supplementary agreement of July 1949, had been ratified by Iran. Iranians may desire other wording.

3. Ambassador does not believe these possible differences in details would prevent reaching of agreement in principle prior to August 3.

HENDERSON

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[1] Transmitted in two sections; repeated to London

No. 488

888.2553/8-354

Memorandum by the Secretary of State to the President[1]

[WASHINGTON,] August 3, 1954.

Subject: Iranian Oil Agreement

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[1] Drafted by Gray and Richards of GTI.

It is expected that agreement in principle between the international negotiating team and the Government of Iran will be reached soon.[2]

There are enclosed for your consideration:

Proposed letters of commendation to Loy W. Henderson, United States Ambassador to Iran, and Mr. Herbert Hoover, Jr., for the significant roles they have played in bringing about a solution of the Iranian oil dispute, together with a proposed message to the Shah of Iran, to be made public if Shah concurs, and a press statement expressing your gratification regarding the settlement of the oil dispute.[3]

It is recommended you:

1. Sign the letters to Ambassador Henderson and Mr. Hoover, and return to me for release when the agreement is signed.
2. Approve the message to the Shah and return to me for transmittal.
3. Approve the press statement and hold for release when the agreement is signed.

JOHN FOSTER DULLES

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[2] On Aug. 5, the Government of Iran and the negotiators of the International Consortium representing the eight oil companies signed the *aide-mémoire* to signify agreement in principle to an arrangement which would restore the flow of Iranian oil to world markets. For the text of their statement issued in Tehran on Aug. 5 announcing their agreement, see Department of State *Bulletin*, Aug. 16, 1954, p. 232.

[3] None of the enclosures is printed. According to a handwritten notation on the source text, President Eisenhower approved Secretary Dulles' recommendations on Aug. 4. Upon the conclusion of the agreement in principle between the International Consortium and the Government of Iran, the letters to Hoover and Henderson were dispatched, as was the President's letter to the Shah; and the press statements of Secretary Dulles and President Eisenhower were released. For texts of the President's letter to the Shah and Dulles' public statement, see Department of State *Bulletin*, Aug. 16, 1954, p. 230. The texts of the President's letters to Hoover and Henderson and the President's press release were attached to the record copy of this memorandum. (888.2553/8-354)

No. 489

888.2553/8-554: Telegram

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET TEHRAN, August 5, 1954—1 p. m.

307. Copy *aide-mémoire* on compensation settlement received this morning from British Embassy. It has been initialled by British

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[1] Transmitted in two sections; repeated to London.

Ambassador and Iranian Minister Finance. It remains secret pending drafting formal compensation agreement.[2] Text follows:

"Whereas the conclusion of arrangements with the Consortium necessitates an agreement on the question of compensation the two delegations have given careful consideration to the financial matters outstanding between the Iranian Government and the Anglo-Iranian Oil Company, Ltd.

They have had regard to the arrangements made between the Iranian Government and the Consortium which include provisions in respect of the use of the Southern assets, in consideration of which the Anglo-Iranian Oil Company, Ltd., relinquishes all claims in respect of the said assets.

They have made a meticulous examination of all the claims and counterclaims of both sides.

They have taken into account the value of the internal distribution assets, the Kermanshah Refinery, and the Naft-I-Shah oilfield, and the disruption of the enterprise of the Anglo-Iranian Oil Company, Ltd., on the one hand, and the disruption of Iran's economy arising out of the failure of the two parties to reach a settlement following upon the nationalization of the Iranian oil industry in 1951 on the other hand.

They have also taken into account the Iranian government's views that in equity they should receive upon ratification of the new agreement with the Consortium additional sums which would have accrued to them under the Supplemental Agreement of 1949 if it had come into force.

Having regard to the foregoing it has been agreed that the Anglo-Iranian Oil Company, Ltd., shall pay to the Iranian Government the additional sums referred to in the preceding paragraph, and such sums totalling pounds 51 million will in turn be set off against the amount payable by the Iranian Government to the Company representing the balance struck after the examination of other claims and counter-claims. In the result, a net amount is payable by the Iranian Government to the Anglo-Iranian Oil Company, Ltd., of pounds 25 million free of interest. This sum shall be paid by Iran in ten equal annual installments beginning on January 1, 1957. Settlement may be effected by the relevant installments being set off against the tax payments of the Trading Company to be established by the Anglo-Iranian Oil Company, Ltd., under the Consortium Agreement.

This payment is in full and final settlement of all claims and counterclaims by the Iranian Government and NIOC on the one hand, and by the Anglo-Iranian Oil Company, Ltd. on the other, in respect of any matter prior to the effective date of the Consortium Agreement. The Anglo-Iranian Oil Company, Ltd. gives in favour of the Iranian Government and NIOC a formal release from all claims and demands of the Company in respect of any such matter. The Iranian Government and NIOC in their turn give the following formal releases and indemnities in favour of the Anglo-Iranian Oil Company, Ltd.:

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[2] On Aug. 5, a joint Iranian-British statement on compensation was also released in Tehran. For text, see telegram 309, Aug. 5, *infra*.

(a) A release from all claims and demands of the Iranian Government and the NIOC in respect of any matter prior to the effective date of the Consortium Agreement.

(b) An indemnity against any liability in respect of any claims and demands that may be made against the Anglo-Iranian Oil Company, Ltd. by third parties arising out of the oil operations in Iran of the said Company.

The wording of this *Aide-Memoire* is not intended to represent necessarily the wording to be used in the Compensation Agreement, which is to be satisfactory to the lawyers for both sides, and which will come into force together with, and form an integral part of, the Consortium Agreement. August 4, 1954"

HENDERSON

No. 190

888.2553/8–554: Telegram

The Ambassador in Iran (Henderson) to the Department of State

PRIORITY TEHRAN, August 5, 1954.

309. Following is text joint Iranian-British statement being released Tehran August 5 on compensation.

"In course frank and friendly discussions on subject compensation, there has been meticulous examination of all claims and counter-claims of both sides. As part of general settlement of oil problem Iranian Government have agreed pay AIOC net amount of compensation totalling pounds 25 million payable over ten years and free of interest. Payments will not begin until January 1, 1957. Settlement takes into account value of internal distribution assets, Kermanshah refinery and Naft-I-Shah oil field, disruption of enterprise of AIOC and disruption of Iran's economy arising out of failure of parties reach settlement following upon nationalization of industry in 1951.

This agreement in conjunction with agreement to be concluded with consortium to settle long-standing dispute and it is hoped will inaugurate new era in Anglo-Iranian relations."

HENDERSON

No. 491

The Ambassador in Iran (Henderson) to the Department of State

PRIORITY TEHRAN, August 5, 1954.

311. Following is text joint Iranian-British statement being released Tehran August 5 on payments:

"Her Majesty's Government and Iranian Government have reached general agreement in principle[1] on arrangements which will govern payments relations between Iran and sterling area, and which will come into force on ratification oil agreement with consortium.

2. Under payments arrangements, all transactions, including those of consortium with Iran and NIOC shall normally be settled in sterling and Her Majesty's Government will take necessary steps to give Iran full 'transferable account' facilities. Her Majesty's Government have also undertaken provide Iran with facilities for converting sterling into dollars.

3. While these arrangements will have await ratification oil agreement, Her Majesty's Government have undertaken as special measure to remove, with immediate effect, certain restrictions existing on sterling payments between Iran and non-dollar world".

HENDERSON

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[1] The agreement in principle was spelled out and formalized in an exchange of notes on Oct. 25, 1954, between the British and Iranian Governments.

No. 492

The Ambassador in Iran (Henderson) to the Department of State[1]

SECRET TEHRAN, August 15, 1954—1 p. m.

385. Although Iranian politicians generally non-committal and some sub-surface tension felt, political scene Tehran remains calm and prospects for Majlis approval of eventual oil settlement appear good. Parliamentary consideration of oil settlement may nevertheless entail bitter and vociferous opposition on part minority in both Majlis and Senate. Both foreign and local observers express opinion that agreement in principle on oil settlement well-received, although details of provisions little understood by public.

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[1] Pouched to London, Isfahan, Tabriz, and Meshed.

Several factors contribute to present confidence oil agreement can be ratified and put into effect in due course. Perhaps most important is general strength of Zahedi government. Politicians generally remain convinced that Shah depending on Zahedi government to carry oil agreement through and that US and UK stand behind Shah and are in complete harmony with each other. (Embtel 209, July 28, pouched London.)[2] Shah has thus far supported oil agreement (Embtel 365, August 11, 1954)[3] He not expected to waver except in unlikely event opposition elements able produce positive evidence, such as public demonstrations, which Shah might interpret as proving ground swell of popular sentiment of opposition to measure. Majlis president Hekmat, rumored in segments of press to be less than firm in support of agreement, has assured British Embassy this untrue and declared "there no worry about Majlis." Through controlled press, government spreading rumor that Communists offering large bribes to deputies to oppose ratification; this obvious move to brand deputies opposing ratification as Communist tools.

In Majlis expected focus of opposition is nationalist-religious group around Qanatabadi. Should he be joined by Behbehani, as is possible, public might get impression religious community opposed to settlement. Other possible sources opposition in Majlis currently subdued. Tafazoli, frequently critical of government in the past, now appears to support ratification. Many deputies regard him as important weathervane of position court, with which he aligned. Oppositionist Darakhshesh, who has posed as spokesman of national movement, may also be restrained by court, to whose influence he is subject.

In Senate no cohesive group opposed to oil settlement visible although Lesani, Divanbeigi and Sharif-Emami likely to voice opposition, however, Divanbeigi, who poses as nationalist spokesman, is Shah appointee and Sharif-Emami also subject to court influence.

There still no firm indication of timing and method government to use in its anticipated request for Parliamentary ratification of agreement. Government understood to have cancelled plans involving participation of dozen Deputies and Senators in Inter-Parliamentary Union conference in Bern beginning August 27. It reported that Amini will attempt link various agreements on producing and refining, compensation, and payment in such way that Parliamentary consideration of all agreements as single package will appear obligatory.

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[2] Not printed (788.00/7-2854)

[3] Not printed. (888.2553/8-1154)

Important key to maintenance favorable situation described above lies in preservation public belief in solidarity among Zahedi-Shah, US and UK.

HENDERSON

No. 493

888.2553/9–1554: Telegram

The Acting Secretary of State to the Embassy in Iran[1]

SECRET NIACT WASHINGTON, September 15, 1954—7:57 p. m.

532. Following letter dated September 15 to President from Attorney General.[2] Letter unclassified but should be released only to interested company representatives.

"As a result of negotiations conducted by the international oil companies participating in the proposed Iranian consortium, there have been submitted to me by the participants drafts of fourteen documents which, I understand, are in final form for execution by the parties.[3] Pursuant to your request for my opinion, I have examined these documents to ascertain the legality of the arrangements set forth, including the legality of participation therein by any or all of the five mentioned or other American oil companies.

On the basis of my review of these documents it is my view that the arrangements set forth therein do not deviate substantially from the arrangements stated in the "Proposed Iranian Consortium Plan" with respect to which I gave you an opinion on January 20 [*21*], 1954.[4] Accordingly, it is my opinion that these agreements, in their present form and if they remain unaltered, in view of the facts and circumstances which now characterize the production and refining of Iranian oil and the determination by the National Security Council that the security interests of the United States require that United States oil companies be invited to participate in an international consortium to contract with the Government of Iran, for the production, refining and acquisition of petroleum and petroleum products from within the area of Iran defined in these documents, would not in themselves constitute a violation of the antitrust laws, nor create a violation of antitrust law not already existing, subject to the limitations stated below.

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[1] Repeated to London. Drafted by Hoover and approved by William O. Baxter, Director, Office of Greek, Turkish, and Iranian Affairs.

[2] Attorney General Brownell's letter of Sept. 15 to President Eisenhower was occasioned by a letter Hoover had addressed to Brownell the previous day, Sept. 14. In that letter, Hoover informed Brownell that negotiations between the Oil Consortium and the Government of Iran had reached the point where the oil companies and the Iranians were "ready to execute, deliver and proceed to perform the various documents involved, subject only to [the Attorney General's] advice as to the conformity of such action with [the Attorney General's] opinion of Jan. 20, 1954." (See Document 411.) Specifically, Hoover requested the Department of Justice to review the documents which constituted the basis of the Iranian oil settlement and which Justice received for review on Sept. 13, to ascertain if their contents conformed to Brownell's opinion of Jan. 20. Hoover asked that this task be accomplished, if possible, by Sept. 15. (GTI files, lot 57 D 155, "Justice Dept. Interest")

[3] The final texts of these agreements are in two bound volumes in Department of State files and are entitled, respectively, "The Iranian Consortium: Government Agreement and Related Documents" and "The Iran Consortium: Participants and Consideration Agreements and Related Documents". (888.2553/12–3154)

[4] Not printed. (888.2553/1–2154)

This opinion of non-violation is limited to the arrangements described in the documents which have been submitted by the oil company participants and does not extend to any other act whatever, such as, but not limited to—

(a) Any other agreement or understanding among the participating parties, or any of them, or between any of the participating parties and non-participating persons.

(b) Marketing, distribution, further manufacture, or transportation of any petroleum or petroleum products, and any plan, program, agreement, or understanding, whether past, present or future, relating thereto.

This opinion of non-violation is given only subject to the express reservation of all rights of the United States, unlimited in any way by this opinion, to continue to prosecute the action against Standard Oil Company of New Jersey and others, pending in the United States District Court for the Southern District of New York, Civil No. 86-27, in accordance with the Federal Rules of Civil Procedure, and to prosecute the charges of such complaint with respect to the actions of the defendants therein and any other persons who may be added as parties defendant, as to any petroleum and petroleum products, including any and all actions dealing with petroleum and petroleum products acquired as a result of the consortium other than any actions which the preceding paragraphs of this opinion state 'would not in themselves constitute a violation of the antitrust laws, nor create a violation of antitrust law not already existing."[5]

Smith

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[5] On Sept. 15 Hoover notified the Embassy in Tehran of the Attorney General's letter to the President. He added that the Department has informed George Koegler of the Standard Oil Company of New Jersey of its contents, and that he, Koegler, had said the Attorney General's letter was satisfactory. The Department, however, also informed the Embassy that the text of the letter had to be submitted for the approval of the General Counsel of each of the other companies, who would meet in New York on Sept. 16 for this purpose, would make their decision, and would inform Page in Tehran of their decision on the morning of Sept. 17. (Telegram 531; 888.2553/9-1554)

No. 494

888.2553/9-1754: Telegram

The Acting Secretary of State to the Embassy in Iran[1]

SECRET PRIORITY WASHINGTON, September 17, 1954—4:25 p.m.

549. Deptel 531 rptd London 1526[2] American oil companies expressed some concern Attorney General's opinion Deptel 532 rptd London 1527 expressly restricted to agreements "in their present form and if they remain unaltered". Koegler reported that as result Iranian requests certain changes being made in drafts which were submitted Justice. Companies confident these changes raise no anti-trust problems but desired Attorney General be advised changes being made and probably would continue be made up to moment Amini signs agreement.

Afternoon Sept 16 Attorney General approved letter to be sent by Acting Secretary to American oil companies emphasizing US Govt recognition some changes might be made prior signature in documents upon which Attorney General's opinion Sept 15 was based and that language quoted above "was intended to preclude only such changes as might raise anti-trust questions".[3] Koegler immediately informed and stated American companies would have no further qualms re signing agreement with respect anti-trust aspects. He estimated documents would be flown from London for Amini's signature Sept 19.

Hope you can find occasion inform Iranians and British our view that Attorney General and his Staff Anti-Trust Division deserve great credit for rapid action this complicated affair.

SMITH

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[1] Repeated to London. Drafted by Stutesman, cleared in substance with Hoover and Ely Maurer of L, and approved by Jernegan.

[2] See footnote 5, *supra*.

[3] Acting Secretary Smith on Sept. 18 sent the letters to R. G. Follis, Chairman of the Board of Directors, Standard Oil Company of California; Eugene Holman, Chairman of the Board of Directors, Standard Oil Company of New Jersey; W. S. S. Rodgers, Chairman of the Board of Directors, The Texas Company; Sidney A. Swensrud, Chairman of the Board of Directors, Gulf Oil Corporation; and G. V. Holton, Chairman of the Board of Directors, Socony-Vacuum Oil Company, Inc. Smith informed them of the contents of the Attorney General's letter of Sept. 15 submitted to the President (see telegram 532, *supra*) regarding the legality of the agreements which the Oil Consortium was prepared to enter into with the Government of Iran, and he enclosed a copy of the Attorney General's letter to the President. (888.2553/9-1854)

No. 495

S/P–NSC files, lot 61 D 167, Iran (NSC 175 and 5402)

Memorandum by the Deputy Assistant Secretary of State for Near Eastern, South Asian, and African Affairs (Jernegan) to the Director to the Policy Planning Staff (Bowie)[1]

SECRET WASHINGTON, September 18, 1954.

Subject: Proposed Program of Military Aid to Iran

I refer to our telephone conversation today about a possible statement on this subject at the NSC Planning Board meeting on Monday.[2] The essential facts are as follows.

General McClure, Chief of the American Military Mission in Iran, has recommended a substantial expansion in the scale of our military assistance to Iran. He proposes that over a three-year period we spend about $360 million, as contrasted with past annual increments ranging between $6 million and $30 million. This expanded program has the general endorsement of our Ambassador.

Something over $100 million of the total would be for defense support: construction of strategic roads, enlargement of air fields, construction of shoe factories, clothing factories, canning plants, etc. Another substantial portion would go for the construction of housing and other facilities needed for the relocation of major Iranian military units in the areas which present plans call upon them to defend in time of war. A third substantial item, in the neighborhood of $80 or $90 million, is to build up a three month's reserve of ammunition. Only between a third and a quarter of the total funds would go for new military end items other than ammunition.

This proposal is designed to give Iran a real capability to assist in the defense of the Middle East and also to encourage her to join in Middle East defense arrangements. The Shah has made the development of his forces a condition to any Iranian participation in a regional arrangement.

General McClure's recommendations are under study in the Pentagon and we are awaiting the views of the Joint Chiefs before trying to formulate a definite State Department position. However, NEA regards the proposals as good, from the political point of view. While it would probably be desirable to make an early start if the expanded program is approved, we believe it would not be absolutely necessary to allocate additional funds from this year's appropriations. The beginning could be made in next fiscal year based on a new presentation to the next Congress.

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[1] Drafted by Jernegan.

[2] No record has been found in Department of State files that such a statement was made.

If the occasion arises for you to comment at the Planning Board, it is suggested that you say the Department considers an adequate military program for Iran as essential to achieve our political objectives in that country. You could add that we do not as yet feel able to express a definite opinion regarding the specific program proposed by General McClure. We consider however that the political factors should be taken very much into consideration in arriving at a decision on this whole question.

No. 496

888.2553/9–2154: Telegram

The Ambassador in Iran (Henderson) to the Department of State

CONFIDENTIAL TEHRAN, September 21, 1954—6 p.m.

711. 1. Impression gained from conversations with various deputies and other Iranians some of whom not friendly to government is that Amini speech morning September 21 presenting oil agreement to Majlis great success.[1] With Iranian subtlety he answered in advance main arguments which opposition was certain present. He did not pretend agreement all Iran would like to have but indicated it was best obtainable. His speech was masterpiece of personal humility mingled with lofty patriotism and was designed win support extreme nationalists as well as partisans of West. He did not appear in role of suppliant but in most polite terms indicated that government not prepared renegotiate in case Majlis should find agreement not satisfactory.

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[1] The Embassy in Tehran telegraphed the text of the single article bill which Finance Minister Amini had introduced to the Majlis on Sept. 21 in telegram 733, Sept. 25. It reads as follows:

"Single article: The National Consultative Assembly ratifies and authorizes the Government to enforce and exchange the attached agreement, the first part of which includes 51 articles and two supplements re the sale and purchase of oil and gas and re the manner in which the operations specified in the agreement are to be managed, and which is signed by Iran and the National Iranian Oil Company on the one hand [and] by the Gulf Oil Corporation, Socony Vacuum Company, Standard Oil Company of New Jersey, Standard Oil Company of California, the Texas Oil Company, the Anglo-Iranian Oil Company, Limited, N. V. Bataafsche Petroleum Maatschappij and the Compagnie Francaise des Petroles on the other hand (and according to article three of the agreement also signed by the operating companies); and the second part of which includes five articles re compensation and which is signed by Iran and the NIOC on the one hand and the Anglo-Iranian Oil Company on the other hand.

"All laws and provisions which are in contradiction with this law are cancelled." (888.2553/9–2554)

2. Newspaper accounts so conflicting we shall not endeavor send full summary until we can obtain official text which we hope will be tomorrow. If Department has received satisfactory summary through other sources please telegraph.

3. Foreign Minister this morning told me government extremely pleased at reception speech and with members elected by Majlis to joint oil committee. He said he personally would have been happier if more opponents to agreement would have been elected since he would prefer give them opportunity vent their views in committee meeting rather than on floor Majlis. Foreign Minister also stated that Senate today was electing its members to joint oil committee so that joint committee would probably be given until September 25 to study agreements; and that it would meet on that date with Finance Ministry and oil experts who would be prepared answer questions and give explanations. Plan was joint committee would make its report to two houses Parliament October 2. It was hoped ratification could be achieved by October 5.

4. Embassy obtained this afternoon list members elected by Senate to oil committee which it is analyzing. Our first impression is that only member likely make real trouble is Lesani. Details later.

HENDERSON

No. 497

888.10/10-1254

Memorandum of Conversation, by the Director of the Office of Greek, Turkish, and Iranian Affairs (Baxter)

CONFIDENTIAL WASHINGTON, October 12, 1954.

Subject: Loans to Iran

Participants:

The Under Secretary
Mr. Waugh, E
Mr. Jernegan, NEA
Mr. Baxter, GTI

Mr. Black, IBRD
General Edgerton, Export-Import Bank
Mr. Overby, Treasury

The meeting was arranged in order to clarify views on proposed loans to Iran, their amount and source, and the feasibility of IBRD participation.[1]

It was pointed out that State believed there were over-riding political and psychological factors necessitating the early offer to Iran of an aid package which would include substantial loans. It is the unanimous opinion of United States officials in Tehran that the oil agreement has produced a favorable climate for advancing our objective of sewing Iran up firmly with the West and the country off the dead center on which it has been statically poised for several years. Now that things are rolling in the right direction, the momentum must be kept up. However, it will be at least three years before the oil revenues will reach a level of anything like abundance and during the first year they will not even be sufficient to cover Iranian budgetary needs.

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[1] A prior meeting on this subject was held on Oct. 8. (888.10/10-854)

Mr. Black stated that the question for which he needed an answer is how the IBRD can enter the picture, if at all. At the moment he did not see how Iran could qualify for an IBRD loan. According to his information, irresponsible commitments were being made by various Iranian officials which probably did not correspond either to Iranian needs or to their ability to pay. Mr. Nasser of the Bank Melli had told him there were approximately $52 million of uncoordinated commitments and he would not be surprised if there were $50 million more which he did not know about. The IBRD had very little information about the situation in Iran, had not studied Iranian projects to find which were justified, and would not be able to consider loans until Iran had brought its house into order and established some effective control over its expenditures. With regard to the proposed $100 million loan, he asked if any commitments had been made to the Iranian Government by the United States, pointing out, however, that a United States commitment could not commit the IBRD, which was an international organization.

Mr. Hoover stated that there was no commitment but that it was United States policy to assist Iran. Certain United States institutions, such as the Export-Import Bank, can extend aid when it is decided that it is in the United States interest to assist some country which might otherwise be lost. He believed that Iran was as good an example as could be found of a country which should be saved. If there should be no fulfillment of the hopes of the Iranian people for early improvement following an oil settlement, exaggerated though they may be, there is a serious possibility that Iran will fall into the Soviet orbit.

Mr. Black said that if that were United States policy he had nothing further to add but that of course the Bank could not participate in any such loan package. He expressed fears, however, that such action would establish a dangerous precedent, as it would lead both Iran and other countries to think they could get long-term development loans from sources other than the IBRD, which had been established for such purposes. He also expressed strong doubts as to the wisdom of linking loan repayments directly to oil revenues. The IBRD has had unfortunate experiences in the past with this and did not like such a procedure; however, if other lending agencies insisted on that kind of guarantee, the IBRD would of necessity have to ask for the same if it should come into the picture. It was agreed that the suggestion of tying a loan to oil revenues would not be pursued.

In connection with Mr. Black's comments on uncoordinated spending in Iran, it was pointed out that everyone, including most responsible Iranian officials, are equally concerned and equally desirous of establishing some kind of firm control arrangement. It would be politically impossible to ask the Majlis to include financial controls over all Iranian Government expenditures in their approval of a United States loan agreement. We would, however, as a prerequisite to extending loans, insist on the establishment of some effective over-all control arrangement. It is felt that perhaps the best instrument would be the present Finance Committee composed of Minister of Finance Amini, Director of the Plan Organization Ebtehaj, Governor of the Bank Melli Nasser, and the Minister of National Economy. The United States would maintain control over its own loan funds by approving expenditures on a project-by-project basis.

Mr. Overby restated United States policy to the effect that loans for long-term development projects should be channeled to the IBRD and that funds of the Eximbank should be used primarily for United States supplier loans for short-term projects. There are, of course, exceptional occasions in which, for political reasons, Eximbank loans can be of a slightly different nature. He suggested that the present situation might be met in the following manner: The Iranian Government might be told that, subject to satisfactory assurances of a control arrangement to regulate government commitments and expenditures, the United States is prepared to negotiatate a package loan from the Eximbank consisting of (a) $30 million from FOA funds for budget support, (b) $18 million for the Karaj Dam, and (c) $35 million for United States goods and services for programs or projects promising quick results of benefit to Iran. Other future development projects are to be discussed with the International Bank.

General Edgerton indicated that he thought such a suggestion would be satisfactory to the Eximbank, as it already had applications from the Iranian Government for loans totaling $53 million. The Karaj Dam is in a special category, as it has assumed a political as well as economic significance in Iran, and work and engineering are already fairly advanced. General Edgerton was not sure that all of the items included in the Iranian $35 million request were in the proper category, but he felt that substitutes could be found for those which fall into the long-term category.

Mr. Hoover indicated that a telegram embodying these suggestions would probably be dispatched very soon to Ambassador Henderson,[2] so that he could discuss them with appropriate Iranian officials before his return to Washington next week. It was pointed out that such an aid package, including loans and FOA grant assistance, is considered a one-time shot in the arm in order to get Iran over the present hump. Future needs for long-term development should be channeled through the IBRD. In this connection Mr. Hoover thought the IBRD could be of great help to Iran, pointing out that Mr. Ebtehaj has already requested Bank assistance. He expressed the hope that Mr. Black would be able to send advisers to Iran to assist Iranian officials in working out a coordinated program for future development.

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[2] Presumably reference is to telegram 729 to Tehran, Oct. 13, *infra*.

No. 198

[illegible] Telegram

The Acting Secretary of State to the Embassy and the United States Operations Mission in Iran[1]

SECRET NIACT WASHINGTON, October 13, 1954—7:51 p.m.

729. Joint State-FOA cable.

1. As result high level inter-agency discussions it has been agreed that following economic aid "package" be authorized for Iran provided adequate assurances as discussed below forthcoming.

(a) \$8.5 million technical assistance;
(b) \$13 million development assistance to be used jointly with (a) above;
(c) \$12.8 million budgetary support from FOA funds for rest of calendar year of which \$5 million to be released promptly without regard to rest of package (FOA Washington cabling immediate authorization release \$5 million);
(d) \$83 million for budgetary and developmental assistance, including \$18 million for Karaj Dam.

2. All of above items are to be in form of loans except items (a) and (c) and \$11 million of item (b).

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[1] Drafted by Baxter, Stutesman, and Crowl and approved by Byroade after being cleared in draft with Norman Paul; Assistant Secretary of the Treasury Overby; Frank Southard, Executive Director of the IMF (paragraph 4); General Edgerton; Waugh; and Nolting.

3. There has been, however, grave anxiety and concern at high levels here regarding uncoordinated spending and commitment Iranian Government revenues; also regarding apparent intention further appreciate rial-dollar rate. Offer above package must be contingent on assurances Iranian Government will take effective action in (1) establishing better control and direction over use its revenues (2) bringing order to present state of financial confusion (3) imposing limits on imports (4) avoiding excessive purchases from foreign suppliers on credit and (5) avoiding further unwarranted appreciation exchange rate. Exchange appreciation reduces effectiveness US aid and leads to demands for more assistance. A solution to financial management problem suggested by concerned Washington agencies would be to place power to control expenditures in hands of committee made up of Ebtehaj, Amini, Nasser and possibly Minister National Economy. Such arrangement should be helpful to Ebtehaj in his desire to channel Government spending toward economic development.

4. While avoidance of any further rial-dollar appreciation need not be made absolute precondition of a package offer you should make abundantly clear that US expects GOI will not appreciate rial rate until in position to accept full financial responsibility for consequences. Separate cable elaborating this point follows.[2]

5. With exception of $18 million for Karaj Dam, which is type of project for which IBRD is normally proper source of financing, development loans from US Government and its agencies will be limited to goods and services for programs or projects promising quick results of benefit to Iran. Other development projects to be discussed with IBRD.

6. Prior to your return Washington next week (which Department desires in connection Iranian aid problem independent of October 19 ceremonies) request you discuss this frankly with appropriate Iranian officials. You should make clear that all plans regarding aid package now held in abeyance until assurances given by Iranian Government along foregoing lines. Please also endeavor obtain clear statement from Iranian Government as to extent and terms of repayment of presently outstanding Iranian commitments. (Para 4, Embtel 825.)[3]

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[2] Reference is to telegram 790, Oct. 22, not printed. (888.00/10-2254)

[3] In paragraph 4 of telegram 825 from Tehran, Oct. 7, the Embassy reported that Ebtehaj had informed American officials that he had thus far been unable to ascertain the exact amount of Iran's future foreign commitments made during the past 3 years, the figures available, however, indicated that they were in excess of $100 million exclusive of oil commitments; that between October and Jan. 1, 1955, Iran was obligated to pay out some $4 million on a number of commitments, and that Iran did not have the funds to honor these commitments. (888.00/10-754)

7. FYI reason for dropping $100 million package suggested while Warne and Rountree were here is belief loan that size would get into fields more appropriate for IBRD financing. End FYI.[4]

HOOVER

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[4] The following day, Oct. 14, Ambassador Henderson agreed with the policies and conditions set forth in telegram 729, but he informed the Department that it would be necessary to present these conditions to the Iranian Government as delicately as possible, especially when approaching Ebtehaj and Prime Minister Zahedi. In view of these considerations, Henderson informed Foreign Minister Entezam of the contents of telegram 729, and Entezam, in turn, "promised" to try to get the Prime Minister into the proper frame of mind when Henderson would see him on Oct. 16, just prior to Henderson's departure for Washington. (Telegram 865; 888.00/10–1454)

No. 499

The Ambassador in Iran (Henderson) to the Department of State

SECRET NIACT TEHRAN, October 15, 1954—2 p.m.

874. Joint Embassy and USOM I message.

1. Following Warne's return we have considered tactics obtaining from Iranian Government commitments meeting requirements Deptel 729, October 13. We believe best procedure would be seek Prime Minister's agreement address letter to me volunteering statement policy Iranian Government. Warne and I plan Saturday meetings with Iranian Government officials with objective if possible obtaining their agreement to procedure before my departure for Washington Sunday morning. Realize difficulty time limitation but would greatly appreciate it if Department and FOA could by niact reply today give us reaction to following draft letter which we hope Prime Minister might be willing sign and which we believe would accomplish purposes:

Begin Text.

Dear Mr. Ambassador: I refer our recent conversations concerning additional technical, economic and financial assistance which US is now prepared extend to Government of Iran. May I express sincere appreciation my government for this further evidence US interest in helping Iran during this critical period until oil revenues begin to flow in substantial volume and Iran is in position accept full financial responsibility for its development and other requirements.

Our discussions on proposed aid program naturally have encompassed considerations regarding intention of Iranian Government not only with regard to utilization of American aid funds which will be made available but also regarding utilization of Iranian resources in manner which would permit most effective results from all funds including American aid. As you know Iranian Government has been giving careful thought to programs and policies which it will follow in economic field upon implementation of oil agreement which has been concluded with international consortium. Realizing how important it is to mobilize and make most effective use of all its financial resources during the critical period lying ahead Iranian Government intends pursue following policies in connection with execution of its development program.

(a) Iranian Government intends pursue in appropriate ways policy already instituted to increase its normal revenues and to budget their use in connection with its programs.

(b) In interest of orderly formulation and execution of development program Government of Iran intends through an appropriate coordinating committee of its responsible officials to maintain close supervision over receipts and expenditures of public revenues and the fixing of priorities for obligations and expenditures on proposed public works and other projects.

(c) Along same lines, in order conserve and make most effective use of all foreign exchange resources of Iran, government intends manage these resources to (1) support and facilitate orderly economic development, (2) maintain proper balance between consumer and capital good imports, (3) foster development of diversified export trade. As you know, Iran is member of International Monetary Fund and will of course consult Fund in accordance with its procedures in advance of effecting any changes that might be warranted in the exchange rate.

End Text.

2. You will note names of members control committee not indicated in draft letter, as we believe Prime Minister probably would not wish be so specific in document this kind. Our suggestion is that precise make-up of committee be covered orally in conversation with Prime Minister and others.

3. Reftel did not suggest inclusion reference to consultation of Iranian Government with US officials before commitments US aid funds, nor do we believe this aspect should be included in letter since it undoubtedly will be made part of later specific agreement.

HENDERSON

No. 500

888.00/10-1554: Telegram

The Acting Secretary of State to the Embassy in Iran[1]

SECRET NIACT WASHINGTON, October 15, 1954—4:26 p.m.

742. Your complete and prompt recommendations contained Embtel 874[2] appreciated. Interested agencies generally approve your recommendations. Believe however some tightening up of Iranian commitments in b and c of draft letter desirable. Suggested rewording of b and c follows:

"(b) In interest of best uses of resources available to Iranian economy and orderly formulation and execution of development program Government of Iran intends through an appropriate coordination committee of its responsible officials to supervise closely the level of public expenditure for budgetary and developmental purposes, and to guard against expenditure for these purposes which are not in conformity with the priority needs of the economy.

(c) Along same lines committee would also seek to conserve and make most effective use of all foreign exchange resources of Iran by managing these resources so as to (1) support and facilitate orderly economic development; (2) limit public and private imports to a level which is related to reasonable prospects for Iran's long-term exchange availabilities, and which does not involve over-commitment of future resources by unlimited acceptance of foreign aid required. Iran, as a member of the International Monetary Fund will, of course, consult the Fund in accordance with its procedure in advance of effecting changes in the exchange rate."

Concerned Washington agencies strongly urge alteration proposed letter along lines suggested above without necessarily adhering to specific wording.[3]

HOOVER

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[1] Drafted by Crowl and approved by Jernegan after being cleared with Overby of Treasury, Deputy Assistant Secretary of State for Economic Affairs Kalijarvi, and FitzGerald.

[2] *Supra.*

[3] Telegram 893 from Tehran, Oct. 18, reported to the Department Iran's agreement, with slight textual variations, to a letter of assurance on the additional aid package. (888.10/10-1854)

No. 501

Editorial Note

On October 21, the Majlis of Iran approved the government's single article oil bill by a vote of 113 in favor, 5 opposed, with 1 deputy abstaining. The bill, however, also required Senate approval and, upon completion of the vote in the Majlis, the government presented the measure to the Iranian Senate for its consideration.

No. 502

888.2553/10-2854: Telegram

The Secretary of State to the Embassy in Iran[1]

CONFIDENTIAL WASHINGTON, October 28, 1954—7:37 p. m.

843. Personal from Hoover to Foreign Minister. The news that the Iranian Parliament has today ratified the oil agreement[2] is wonderful news indeed and marks a significant victory by those forces in Iran dedicated to the principle that Iran is to move forward toward social and economic development in friendly cooperation with other nations of the free world.

Please convey my heartiest congratulations on this significant occasion to His Imperial Majesty, the Prime Minister, Dr. Amini and all the others in your government who contributed to the accomplishment of this great achievement which the whole free world admires.[3]

DULLES

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[1] Drafted by Stutesman and approved by Under Secretary Hoover after being cleared with Ambassador Henderson.

[2] On Oct. 28 the Embassy in Tehran informed the Department that the Iranian Senate had passed the oil bill that day, with 41 votes in favor, 4 against, and 3 abstentions. (Telegram 962; 888.2553/10-2854)

The Department issued a press release, dated Oct. 28, announcing that on Oct. 28 the agreement in principle, signed on Aug. 5, between the Government of Iran and the International Oil Consortium, was ratified by the Iranian Senate. For text, see Department of State *Bulletin*, Nov. 8, 1954, p. 683.

[3] On Oct. 29 the Embassy in Tehran, informed the Department that the Shah signed the oil bill that day. (Telegram 974; 888.2553/10-2954)

No. 503

788.5 MSP/10-854

The Secretary of State to the Secretary of Defense (Wilson)[1]

TOP SECRET [WASHINGTON,] November 8, 1954.

DEAR MR. SECRETARY: I have your letter of October 8, with enclosures, commenting on the possibility of an increased military assistance program for the Iranian army.[2] I concur in the importance of an early decision on this matter.

Recent developments in Iran have resulted in a situation conducive to the attainment of United States objectives in that country. Settlement of the oil issue, following reestablishment of internal security by a strongly pro-Western government, the recent vigorous action to suppress communist activities in Iran and the current resolute attitude of most Iranian leaders vis-à-vis the Soviet Union have created an atmosphere which could not have been foreseen a year ago. The Shah and Government leaders are anxious to improve the effectiveness of Iran's armed forces. They have stated on several recent occasions that Iran would join in regional defense arrangements, provided it has the forces to make a significant contribution. Additional assistance to the armed forces will offer a means of influencing the Shah and other leaders.

This situation presents us with an opportunity to carry out NSC policies of advancing the Iranian military position and of encouraging Iran to adhere to regional defense arrangements. There have been previous opportunities to assist the Iranians in building up their armed forces. These opportunities were not fully exploited because the objective was then only to maintain internal security in Iran and also because the Iranian political picture was less favorable. We believe that if the present opportunity is seized we can capitalize on the existing favorable situation in Iran and make a significant advance toward bringing Iran into closer cooperation with its neighbors in the free world and changing it from a liability to a positive asset in the Middle Eastern area.

I note that the Joint Chiefs of Staff consider that "a buildup of Iranian military potential would be consistent with the military objectives of the United States in the Middle East." NSC 5402 likewise states that we should "provide United States grant military aid for Iran designed to:

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[1] Drafted by Jernegan, Kitchen, and Stutesman on Nov. 4, with the concurrence of Nolting of S/MSA.

[2] Not printed. The proposal of the MAAG in Iran called for reorganizing and enlarging the Iranian Army over a 3-year period at an estimated cost of $360 million. (788.5 MSP/10-854)

> a. Improve the ability of the Iranian armed forces to maintain internal security and provide some resistance to external aggression.
>
> b. Enhance the prestige of the monarchy and the morale of the Iranian Government and military services."

It would seem, therefore, that there is general agreement on the desirability of the further development of the Iranian defense forces for both political and military reasons.

NSC 5402 also provides that we "take into account:

> a. The attitude of Iran with regard to this aid and with regard to political, economic and military cooperation with the free world, including Turkey, Pakistan, and possibly Iraq.
>
> b. Iran's ability satisfactorily to absorb military equipment and training, and its willingness at an appropriate time to formalize necessary contracts for military aid and training."

I think it is clear that military cooperation by Iran with its neighbors can be obtained in the relatively near future provided we are able to assure the Iranian leaders that their military capabilities will be increased to the extent necessary to enable them to make a worthwhile contribution to their own defense and that of the area. Without such assurances I do not believe they will feel willing or able to enter into the kind of arrangements contemplated.

The view of the Joint Chiefs of Staff that an expanded military aid program for Iran should not be approved until certain regional defense joint planning studies have been completed is fully appreciated. I can, of course, see the advantages of having such plans before deciding upon the allocation of our resources among the countries of the Middle East. As I have pointed out, however, there are strong political and psychological reasons for taking certain basic steps now to begin the development of greater Iranian military strength and thereby to insure Iran's full cooperation in any eventual defense plans on an area basis.

If, therefore, I am correct in understanding that the Department of Defense considers future Iranian political and military cooperation of value to the security of the United States, I would suggest that your Department consider as a matter of urgency the preparation of an expanded program of military aid for Iran for presentation to the next Congress as part of our military assistance appropriation requests. I think the magnitude of such a program should not be limited by our present estimates of the funds likely to be approved by the Congress but rather solely by our estimates of the amount needed to achieve the desired result. We should, I think, be prepared to recommend that the Congress seize this opportunity to support a program which will represent a net gain for free world security.

I recognize that in planning such a program the capacity of the Iranian armed forces to absorb equipment must be considered. I hope that through training and other means we can increase this capacity. In conjunction with your Department, the Department of State would be prepared to emphasize to the Iranian authorities that delivery of military equipment must be timed in accordance with the capacity of Iranian forces to utilize it effectively. From the political point of view, the essential is to be able to assure the Iranians that appropriate equipment and facilities will be provided as and when they fulfill their share of the bargain.

It is clear that the development of effective and adequate Iranian armed forces, along with an increased defense capacity will depend not only upon training and military end items but also upon economic and defense support to complement military assistance. Iran does not have the capability financially to support an increased military effort during the next few years while oil revenues are small. Urgently needed and politically essential economic development will consume a major portion of the resources which will be available. We are prepared to recommend and assist in programming additional defense support requirements (which in this instance may involve budgetary support for Iran's armed forces) in coordination with the FOA. In this connection, we would appreciate the views of your Department as to the kind of defense support which is most urgently needed to complement the military assistance program.

There are as yet no funds allocated for the purpose in FY 1955, but Ambassador Henderson's military advisors have recommended very strongly that some additional aid be urgently provided in connection with a training program. I am told intensive field training is a primary requisite to the improvement of Iran's armed forces and that in order to take full advantage of the United States military training teams being assigned to Iran early next year, the Iranian Government should have additional budgetary support funds. These are necessary to acquire training areas and facilities, and to provide for special local needs arising from training activities and which are not provided for under MDAP. Whether such funds can be made available in the current fiscal year should be a matter for consideration between appropriate Officers of the Departments of Defense and State and the Foreign Operations Administration. The views of your Department on the military urgency involved should, of course, weigh heavily in the decision.

The Department of State does not advocate the adoption of the specific program recommended by our MAAG in Tehran which, in our view, might be regarded simply as an illustrative proposal useful in considering this problem. We would, of course, rely on the judgment of the Defense Department as to the type and extent of a program best designed to expand the Iranian defense capacity.

We do not anticipate serious problems arising from possible reactions of other Middle Eastern countries to an enlarged aid program for Iran. In some of those countries new assistance programs are already being initiated and our policies with regard to aid are clearly justifiable on the basis of ability to absorb, the requirements of Middle East defense, and the relative contributions which various states are prepared to make.

For the foregoing reasons I would appreciate it if the Department of Defense and the Joint Chiefs of Staff would give further consideration to enlarging the military assistance program for Iran and to the type of defense support which should accompany that program.

Sincerely yours,

JOHN FOSTER DULLES

No. 504

788.11/12-954

Memorandum by the Acting Assistant Secretary of State for Near Eastern, South Asian, and African Affairs (Jernegan) to the Secretary of State[1]

SECRET WASHINGTON, December 9, 1954.

Subject: Visit of His Imperial Majesty Mohammad Reza Pahlavi Shahinshah of Iran and Empress Soraya

The Shah will call upon the President on Monday, December 13 at 12:15 p. m. for a talk. The President expects that you will attend together with Under Secretary Hoover and Acting Assistant Secretary Jernegan. Ambassador Entezam will accompany the Shah. It is also expected that Mrs. Dulles together with Mrs. Hoover will assist Mrs. Eisenhower in showing the Empress around the White House during this period. You and Mrs. Dulles, along with the others, are also invited to lunch.

The Shah's main interest is to find out what role we expect Iran to play in Middle East defense and to what extent we are prepared to assist Iran to develop defensive delaying capabilities. Although the Shah has been told he cannot expect any final decisions during his visit, our response to his questions should take in the following considerations: we wish to improve the ability of Iran's armed forces to provide resistance to external aggression and eventually to make a realistic contribution to the defense of the area. We wish also to build up the self-confidence and morale of the Shah and his government so that they will continue to stand up to Soviet pressures and to have a sense of direction. Former opportunities to build up Iran's armed forces were not fully exploited due to a less favorable political climate. We believe that if the present opportunity is seized we can capitalize on the existing favorable situation in Iran and make a significant advance toward bringing Iran into closer cooperation with its neighbors in the free world and changing it from a liability to a positive asset in the Middle Eastern area.

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[1] Drafted by Gray of GTI.

At the outset of their talk the Shah will hand the President a memorandum containing his views. We have an advance copy, a summary of which is attached as Tab A. It is recommended that because of his personal knowledge of the Iranian situation, you ask Mr. Hoover to brief the President regarding it.

Attached as Tab B for your approval is a memorandum for the President, transmitting a paper which suggests the line he may wish to take in response to questions which the Shah is likely to ask. This paper has been approved by the Department of Defense and CIA.

Attached as Tab C[2] is a summary status report on military aid to Iran. Although the Secretary of Defense has not yet replied to your letter recommending a substantial increase in aid,[3] *a decision has been taken that we help develop Iran's defensive delaying capabilities as fast as Iran demonstrates its ability to effectively train its soldiers to use properly our military aid.*

Attached as Tab D is a background paper on the internal political situation in Iran. You may wish to comment to the Shah on the resolute attitude and determination shown by his government in combating communism in Iran.

Attached as Tab E is a background paper summarizing the current economic situation and describing US economic aid to date. It is not expected that the Shah will want to discuss the question of economic aid in any detail. However, it is recommended that you compliment the Shah on his government's stated intention to press forward with economic and social reforms.

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[2] Tabs C, D, and E are not printed.

[3] Reference is to Secretary Dulles' letter to Secretary Wilson, *supra.*

If the Shah should express the hope that Ambassador Henderson would not be withdrawn at this time you may wish to take the line that the decision regarding his transfer[4] was based on long-term considerations and important responsibilities for which he is singularly qualified.

[Tab A]

AMBASSADOR HENDERSON'S SUMMARY OF THE MEMORANDUM TO BE HANDED TO THE PRESIDENT BY THE SHAH AT THE OPENING OF THEIR TALK AT THE WHITE HOUSE ON DECEMBER 13

During the last 15 months Iran has demonstrated a determination to remain an independent nation and to utilize its resources to the advantage of itself and other free nations. The oil agreement marks a psychological turning point for Iran as well as a beginning of a new and promising economic period. In abandoning a negative and sterile policy the Iran Government and Parliament have made a conscious decision to turn their backs on this form of isolationism and to join hands with leading nations of the free world. Iran is grateful for US financial support during its period of travail; also for encouragement and counsel from the President and his advisers that have helped so much to bring Iran to the present promising situation.

It is hoped that Iran eventually will receive the oil revenues needed for a development program designed to strengthen its economy and improve living conditions. Plans for the program will be carried out in a way that natural and human resources will be utilized to the maximum, and I intend to do all in my power to make sure funds will be used wisely in executing the program according to carefully worked out priorities. It will be several years, however, before Iran is in a position to meet urgent development needs without financial and technical assistance from its friends abroad. We are particularly appreciative of the support which the US is continuing to give in connection with the economic and technical advancement of our country.

The problem weighing most heavily upon my mind at present, however, is that of the security of Iran. We have over 1,600 miles of border with Russia. Although relations now with our northern neighbor are at least formally correct, we have no reason to believe that international communism has abandoned its long-range objectives of converting Iran into a Communist corridor to the Persian

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[4] Ambassador Henderson was appointed Deputy Under Secretary of State for Administration on Jan. 26, 1955. He left Tehran on Dec. 30, 1954.

Gulf, the Middle East and South Asia. We are compelled to keep constantly on guard to prevent or frustrate Communist infiltration. Just recently we discovered that Communists had taken advantage of a situation which existed in Iran between April 1951 and August 1953 to penetrate our Armed Forces. The so-called "neutrality" policy of the Iranian Government then in power was primarily responsible for the decline in morale among certain elements in the Armed Forces. This policy gave these forces the impression that if Iran should be subjected to armed attack from the north they would not be expected to defend the country and that therefore there would be no reason to be prepared to do so. Fortunately during this period an overwhelming majority of officers and men remained loyal and patriotic and we have been able to identify and weed out those who failed to stand firm. Nevertheless a degree of success which the Communists were able to achieve emphasizes the importance that the armed forces understand that their basic mission is defense of their country.

There are several ways by which international Communists may try to take over Iran. I shall mention three: (1) by armed invasion with the idea of stamping out all resistance before other nations of the free world have the opportunity to intervene; (2) by simultaneous employment of tactics of diplomatic pressure, threatening gestures, and internal and organized infiltration. Pressures and threats would be used to keep Iran isolated from other free countries whose support Iran needs, and infiltration would be resorted to for the purpose of reducing the country to a helpless state of economic and political chaos; (3) by convincing the Iranian people that Iran, in its geographical position under the shadow of a great Communist bloc and far distant from the centers of strength in the free world, has no hope of surviving as a free nation and therefore it would be better to surrender to international communism without fight rather than to give in after a cruel, hopeless struggle.

I am convinced that one of the essentials for preventing international communism from realizing its ambitions with regard to Iran is for us with the help of great free nations, particularly the US, to strengthen our Armed Forces to the extent that would render them capable of putting up an honorable defense if Iran is attacked. If our forces could possess such a capability, morale would be much higher and they would be much less vulnerable to penetration. The Iranian Government and the Iranian people would be sure to stand up more firmly in the face of pressures, threats and attempts at Communist infiltration if they had the feeling Iran could resist if attacked, and that the free world were interested in Iran being able to put up such resistance and were helping to that end.

Furthermore if Iran should have an army with real defensive capabilities, international Communism in my opinion would be more cautious in launching an armed attack against it and would not be so hopeful of achieving its ends by indirect means.

We are grateful for US military assistance which during recent years has rendered it possible for Iran to maintain armed forces capable of preserving law and order internally. Unfortunately, however, its forces now have practically no defensive capabilities. Its organization, number and distribution throughout country do not correspond to the present needs of Iranian defense; its officers and men are not trained, conditioned, equipped and armed to meet the requirements of modern warfare. I fear that no matter how much money and effort are put into strengthening Iran economically, our common objective of maintaining Iran as an economically and politically stable independent country will not be achieved unless the situation re its armed forces is remedied.

Unfortunately at present our budget, even with present generous assistance from US is so limited we do not see how we can spare the additional funds to the military for training purposes. We are not able to give the armed forces food and clothing of the kind which men undergoing rigorous training should have; no goods with which to settle some contingents in more strategic areas or to transfer military stores to less vulnerable places. We are hoping that the US will find it possible to give us help in this regard, to give us additional aid in training, and also furnish us, as fast as we are prepared to make effective use of them, all weapons required by a modern army—weapons which in our case would be required not only for our own defense but also for that of the region. I stress the importance of modern weapons since it would not be good for the morale of our soldiers for them to feel that we expect them to stand up to heavy tanks with our present inadequate arms or to be subjected to aerial bombardment without any aircraft, guns and fighter protection. In this connection, it should be borne in mind that in view of Iran's geographical position it might take from three to six months to get military supplies to us in case we are attacked. Need for advance planning in the matter of military depots therefore seems urgent.

We realize that Iran, even with strong army would not be able by itself over a prolonged period to halt international Communist aggression in force. It seems clear that a regional security arrangement of some kind which includes Iran might well serve as a deterrent to such aggression and would be helpful in combatting aggression if it should be undertaken. It does not seem to me fitting, however, that Iran should be a party to such an arrangement until it is in a position—or until it has at least reason to believe that it will soon be in a position—to contribute its share to the common defense of the area. No self-respecting nation can expect its neighbors to fight for it unless it is willing and capable of fighting for itself.

From the viewpoint of the security of the area as a whole, it seems to me militarily, strategically and logically sound that there should be a carefully calculated balance of military strength among Turkey, Iran and Pakistan. Such a balance is now non-existent. Powerful forces are concentrated in Turkey while Iran is almost defenseless. An international Communist attack would certainly not be through Turkey when it could easily outflank Turkey by seizing Iran. It could then turn the Persian Gulf into a Communist sea, split the forces of Turkey and Pakistan, occupy our oil fields, and be in a position to seize the major oil fields of the Middle East. It is difficult therefore to escape the conclusion that Iran at present is the key to the defense of the Middle East.

We earnestly hope that the US will understand the difficult problem Iran is facing re its future and will make such political and military decisions as are necessary if the Iran people are to go about their tasks of strengthening the economic and social basis of their country with feelings of confidence, and if Iran is to play its proper role in promoting the security of the Middle East and of the free world.[5]

[Tab B]

VISIT OF THE SHAH OF IRAN

SECRET

The Shah visited the United States in 1949. He believes that he was rebuffed and that he did not succeed in making the United States realize the strategic importance of Iran and the need for our support on the Greek-Turkish pattern. He is visiting the United States again, with his Empress, to obtain medical advice, rest and relaxation, and to talk to American officials concerning military support and area defense organization. He has been informed by Ambassador Henderson that no final decisions will be reached during his visit.

You will find him sympathetic to our objectives by personal inclination as well as statesmanlike realization of his country's stake in the free world's struggle against international communism. He appreciates, but is very sensitive about, the extent of our assistance to him in 1953 when he took a courageous stand against Dr. Mosadeq.

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[5] On Dec. 14 President Eisenhower addressed a memorandum to Secretary Dulles enclosing the text of the Shah's memorandum, which the Shah had handed to the President at their meeting the previous day. Ambassador Henderson's summary of the Shah's document closely paraphrased the Shah's text. The texts of both the President's and the Shah's memoranda are in file 788.11/12-1454.

The *oil settlement* has led the Iranian public to expect early, tangible benefits. Without economic and social improvement, political stability in Iran and the oil settlement itself will be seriously threatened.

United States *economic aid*, consisting of $5 million per month budgetary assistance from August 1953 through the end of 1954, a technical assistance program and a loan through the Export-Import Bank of $83 million, has been designed to support political stability and early economic development.

United States *military aid* is designed to improve the ability of the Iranian armed forces to maintain internal security and provide some resistance to external aggression. Intensive training is a major element in our proposed program for next year and United States training teams down to brigade level are being added to the advisory military missions we have had in Iran since the war.

The Shah's primary interest will be in the question of the role which we expect Iran to play in Middle East defense. The "northern tier" concept of increasing strength in the Middle East requires Iran's adherence to regional security arrangements. The Shah wants to join, but wants to be assured that we will help develop his armed forces to a point where they can make a realistic contribution to such defense before his country formally commits itself.

RECOMMENDATION

It is suggested that you tell the Shah that we would welcome Iran's adherence to a regional defense arrangement of Turkey, Pakistan and Iraq and are prepared to help develop in the Iranian armed forces defensive delaying capabilities which would make a useful contribution to defense . . . . We are convinced, however, that until intensive training has improved his army's ability to make effective use of modern weapons, it will not be possible for us to evaluate the military role which Iranian forces should play.

Following the settlement of the Suez Canal base problem between Britain and Egypt, we are reassessing the Middle East defense picture and expect to have firm views on what is required by late spring. However, high United States military and civilian officers are interested in having the Shah's views on this and related subjects.

We do not want to develop a military establishment in Iran which would be an undue burden on the national economy. While we are prepared to ask Congress for some defense support funds for

Iran in FY 1956, we need assurance that, as oil revenues increase, the Shah will see to it there is enough set aside to make a major contribution toward supporting the armed forces and thereby reduce reliance on foreign aid.

It is recommended that you express condolences for the death of Prince Ali Reza, the Shah's brother, in a recent airplane crash.[6]

It is recommended you mention the messages which you exchanged with the Shah during the recent crisis period in the sense of a partnership which is still active. A reference along the following lines is suggested:

> "I am very pleased at the close way in which we have been able to work together on some very important undertakings in spite of the fact that many thousands of miles have separated us. I want you to know of the great personal interest I have taken in all of this and the appreciation I feel for the courageous and statesmanlike actions you have taken."[7]

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[6] Prince Ali Reza died on Nov. 2.

[7] On Dec. 10 Secretary Dulles sent this briefing paper to President Eisenhower under cover of a separate memorandum that suggested to the President that he use the information in this paper as the basis of his replies to questions that the Shah might ask. (788.11/12-1054)

No. 505

788.11/12-1354: Telegram

The Secretary of State to the Embassy in Iran[1]

CONFIDENTIAL WASHINGTON, December 13, 1954—7:33 p. m.
PRIORITY

1175. Shah and party arrived safely Washington this morning as scheduled.

Prior lunch at White House, Shah had short substantive talk with President, Vice President, Secretary, Under Secretary and Jernegan.[2] Shah expressed gratitude for US support and encouragement which had saved not only Iran but Middle East from disaster. He emphasized strong stable Iran advocating democratic principles necessary for security that area. He gave President memorandum (Embtel 1247).[3]

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[1] Drafted by Stutesman and approved by Jernegan.

[2] No record of this conversation has been found in Department of State files.

[3] In telegram 1247, Dec. 5, Ambassador Henderson transmitted to the Department his summary of the memorandum that the Shah was to give President Eisenhower at their meeting in Washington, see Tab A, *supra*. (788.11/12-554)

President concurred strategic significance Iran and importance build up strength and stability there. Assured Shah US Government officers would give sympathetic hearing further detailed discussion of specific things to be done for Iran. Stressed importance that Iran make full use foreign private capital. Shah stated law would soon be passed inviting and protecting such investment.

Admiration was expressed for resolute attitude Iran taking vis-à-vis communists. Shah replied that every day he and government officials take some anti-communist action which requires courage and determination. He said he convinced firmness necessary when dealing with Soviets. This emphasized necessity improve Iran armed forces so Government and people can have increased confidence and be able continue withstand Soviet pressures and communist infiltration. Shah recognized importance having balance between military and economic development.

President suggested Shah might wish send him written memorandum of impressions and any outstanding questions at conclusion visit Washington.

At White House lunch and at Secretary's dinner tonight Shah meets number high officials US Government. Next substantive talk is tomorrow morning in Pentagon with Deputy Secretary Defense, several high military officers, Under Secretary Hoover.

DULLES

No. 506

[illegible]

Memorandum of Conversation, by the Deputy Under Secretary of State (Murphy)[1]

TOP SECRET [WASHINGTON,] December 15, 1954.

During an informal and cordial after luncheon conversation at General Ridgway's house, at which were present the Shah of Iran, Ambassador Entezam, General Ridgway and myself, there was a lengthy discussion of the strategic situation affecting Iran. General Ridgway, using a map of the Middle East, went over the major outlines of the strategic situation. The Shah spoke at considerable length regarding the exposure of his country to eventual Soviet invasion and the importance of his forces providing a holding operation. He emphasized the strategic value of the Kermanshah area where the most important resistant elements would be located, as this area joins Iraq and Turkey. He described satisfactory relations now prevailing between Iran and Iraq, but was more reserved regarding the Turks. He pointed to the strong religious influences which affect the attitude of many of the tribes in Iran which make for harmonious relations between elements in Iraq, Afghanistan and Pakistan.

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[1] Copies of this memorandum were distributed to General Ridgway, Under Secretary Hoover, Jernegan, and Nolting of S/MSA.

On the question of Iranian participation in the Turkish-Pakistan alliance, the Shah said this alliance in its present limited scope really made no sense as the parties were separated by 2,000 miles. It could only be made an effective working relation with Iranian and eventually Iraqi participation. Iran, however, in its present unprepared and unequipped state is in a very poor bargaining position and until its military strength has been increased, it is inadvisable to think of Iranian adherence to the alliance.

There was lengthy discussion of the value of the oil resources of the Middle East area, the importance of the sea lanes, the strategic air possibilities, and the Soviet potential in land forces and air forces in the Caucasus and Turkistan areas.

General Ridgway stressed two or three times that of course he was only authorized to talk in terms of technical military matters and that the question of finance and allocation rested with the civilian branch of the Government. This, the Shah said, he fully understood. General Ridgway skillfully avoided any form of commitment.

I took occasion to refer to the importance attaching to an improvement in Arab-Israeli relations expressing the hope that the Shah would bring his influence to bear. He nodded assent saying he understood.

With reference to the combat training personnel which the Department of Defense is sending to Iran, General Ridgway said that the first elements would probably arrive in Iran sometime in January and that the total group would not reach Iran until June. The Shah said this was deplorably slow and he hoped that the schedule might be expedited.

ROBERT MURPHY

No. 507

788.11/12-1554: Telegram

The Acting Secretary of State to the Embassy in Iran[1]

SECRET PRIORITY WASHINGTON, December 15, 1954—7:18 p. m.

1187. Shah's talk at Pentagon morning Dec 14 very friendly and Shah later indicated he was pleased with course discussions. Memo conversation being pouched.[2]

All agreed Iran one of real keys to defenses Middle East and that Iran should not be considered separately from other non-Communist countries. Anderson, Deputy Secretary Defense emphasized 1) our interest in alliance which would close Turk-Pakistani gap, 2) essential basis development solid military strength lies in training, 3) importance begin strategic planning soon as possible. Reference made in this connection reported willingness Iraqi commence staff talks with Iranians. Shah did not dissent this point but made no commitment.

Shah appreciated US training teams and training plans but insisted that there was also need have over-all plan or goal so that troops would have objective work toward. Anderson agreed that this was desirable and said we would work toward that end.

Although no precise figures on programs were discussed Shah did emphasize need for certain types weapons such as heavy field artillery and tanks if Iranian soldiers are to have confidence in ability defend themselves against aggressor. Anderson said American and Iranian experts working together must develop detailed plans covering this problem. Emphasis was laid on importance training maneuvers to be held next spring which would provide basis for our better evaluation Iranian needs and capacities absorb equipment. Anderson assured Shah we would be prepared help meet cost these maneuvers.

At lunch today[3] Generals Ridgway and Lemnitzer re-emphasized importance training while Shah again described strategic significance Iran and his views on tactical maneuvers which should be followed in event Soviet aggression.

HOOVER

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[1] Repeated to Paris for the Secretary. Drafted by Stutesman and approved by Jernegan.

[2] Not printed. (788.11/12-1454)

[3] No record of this conversation, other than Murphy's memorandum, *supra*, was found in Department of State files.

No. 508

788.11/12-2154

Memorandum by the Under Secretary of State (Hoover) to the President[1]

SECRET [WASHINGTON,] December 21, 1954.

At the conclusion of his visit, the Shah asked me to report to you orally as follows:

He very greatly appreciated your interest, courtesy and hospitality, and was deeply impressed by the understanding of Iran's problems which he found in Washington. The sense of cooperation which he felt everywhere was most encouraging.

He said that the only questions remaining in his mind were dependent upon decisions yet to be reached in our military groups, which he set forth as follows:

(1) A final decision would have to be reached by the United States to see a "balance of power" between Turkey, Iran and Pakistan.

(2) If the decision was affirmative, as he had reason to hope was the case, the United States would have to give financial help for the military program, in addition to military hardware, over the next three years until oil revenues had reached their normal levels.

(3) The military budget and plans for conscription had to be formulated by February, which was the beginning of the Iranian fiscal year. He was troubled that our decision was dependent upon our plans for evaluation, and that he could not yet proceed with confidence.

He said that economic matters were now progressing satisfactorily, and that he was most grateful for all of the help we had given to his country.

HERBERT HOOVER, JR.

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[1] Drafted by Hoover. The information conveyed to the President was from a conversation between Hoover and the Shah on Dec. 15. (788.11/12-1554)

INDEX

- Abadan Refinery (*see also* Anglo-Iranian Oil Company), 54, 64, 182, 246, 283, 353, 810
  - AIOC right to sell, 251-252
  - American technicians, 702-703
  - British personnel:
    - Evacuation plans, 67*n*, 102, 151, 188*n*-189*n*, 192*n*, 194
    - Expulsion order, 167-175, 190, 200
    - Morale of, 70, 131, 134
    - Withdrawal of, 70*n*, 89, 197-198, 201*n*
  - British threat of force, 28*n*, 35, 65, 131, 151, 169*n*, 170*n*, 171-173, 194
  - Exemption from nationalization, 250, 252-254
  - Relieving tension at, 106, 117, 120, 123-124, 127, 129, 150
  - Shutdown discussed, 76, 80, 84, 94
  - Visits, 131, 302, 321
- Abdullah, King of Jordan, 104*n*
- Acheson, Dean G.:
  - AIOC dispute, 44, 476
    - Basis for settlement, 256-258
    - British position, 9899, 167-170, 256-258, 265-267, 278-283
    - Harriman mission, 81*n*, 88-89, 98-99
    - IBRD proposal, 344-346, 348-349, 352-354
    - International arbitration, 540-541, 558-561, 563-564, 605-606
    - Lump-sum settlement, 556*n*, 557
    - Mosadeq counterproposal, 481, 482-483, 488-490, 490-491
    - Negotiations encouraged, 57, 66-68, 76-77, 155
    - Truman letter, 88-89
  - Economic assistance to Iran, 241-244, 295-298, 311-321, 336-341, 428, 512
  - Export-Import Bank loan, 67
  - Military policy on Iran, 510-513
  - Political situation in Iran, 346-347, 407, 439-443
  - U.S.-U.K. relations, 408, 510-511
- Afghanistan, 220-221, 770, 1075
- Afshartus, Brig. Gen. Mahmud, 688, 726, 735
- Ala, Hosein, 45*n*, 47, 474, 683
  - AIOC dispute, 96, 105, 383
    - British proposals, 37-40, 42-43, 46
    - Iranian proposals, 163, 165
    - Mosadeq and, 99, 187
    - Stokes mission, 138, 146, 148
  - Appointed Prime Minister, 910

Ala, Hosein—Continued
  - British opposition to, 33, 35, 45*n*
  - Iranian armed forces, 943-947
  - Majlis elections, 810-812, 891, 899
  - Military assistance under MSA, 372-373
  - Mosadeq and Shah conflict, 389-392, 400*n*, 438, 680-681, 718-719
  - Mosadeq government and, 47, 98, 174-177, 180*n*, 384-386, 389-392, 400*n*, 404-406
  - Mosadeq's resignation, 409-410
  - Replaced as Court Minister, 720-721, 726
  - Shah and Mosadeq government, 95, 674-677, 681-682, 719-721,724-725
  - Zahedi goverment, 721, 1012-1015, 1026-1028
- Aldrich, Winthrop W.:
  - AIOC dispute:
    - Compensation issue, 968-969, 1042-1043
    - Eden-Zahedi exchange, 824-825
    - Hoover factfinding mission, 825-828
    - International consortium, 844-846, 975-976
    - Meeting with American oil companies, 848-849
    - Memorandum of Understanding, 978-981
    - Negotiations, 1019-1020
  - U.K.-Iranian relations, 821-825, 835-836, 842-844
- Amini, Abol Qasem, 726, 731, 735-736, 745
- Amini, Ali, 801
  - AIOC dispute, compensation issue, 1019, 1034
  - International consortium agreement, 1000, 1004-1006, 1031, 1048, 1051
  - Iranian oil agreement, speech before Majlis, 1053-1054
  - Loans through Finance Committee, 1056, 1058
- Amini-Majdi, Gen. Mahmud, 731-732, 757
- Anderson, Robert B., 789, 982-984
- Anglo-Egyptian Agreement of *1953*, 667
- *Anglo-Iranian Oil Co. Case (United Kingdom* v. *Iran)*, 414

- Anglo-Iranian Oil Company (*see also* AIOC dispute *under other subjects*; Harriman mission; Stokes mission; International Court of Justice; Nationalization of oil industry; United Nations):
  - Anglo-U.S. relations, 207-208, 210, 257, 282, 304, 317, 510*n*, 511, 513*n*, 532, 551, 651*n*, 695
  - Arbitration agreement, 611-615
  - Basis for settlement, 252-254
  - Board of Arbitration, 540-541
  - British personnel:
    - Evacuation plans, 67*n*, 98-99, 102, 103, 106, 188*n*189*n*, 190, 206
    - Expulsion order, 179, 185, 192*n*, 196-199, 259, 270, 394
    - Interference with, 118, 119*n*-120*n*
  - British threat of force, 28*n*, 35, 65, 131, 151, 169*n*, 170*n*-171*n*, 172-173, 175-178, 189, 194, 205
  - Compensation issue, 203, 213-214, 223, 227, 230, 232-233, 247-248, 250, 272-274, 314-315, 317, 322, 324-326, 337, 364, 393-395, 415*n*, 428-429, 433, 440-442, 444-445, 452-453, 470, 478, 481, 486-489, 492-493, 499-501, 502-503, 505-507, 535, 540-543, 548-550, 575-576, 589-590, 596*n*-597*n*, 642-647, 703, 816-818, 912, 949-950, 951-952, 959-965, 967-968, 970-971, 973, 998, 1009, 1018-1020, 1034, 1038-1039, 1042-1045, 1046, 1053*n*
  - Concession agreement of 1933, 25, 27, 62, 247, 261, 435, 444, 448, 450, 452-453, 465, 477, 480481, 484, 487, 496-497
  - D'Arcy Agreement, 444*n*, 478
  - Dissolution of, 174, 191, 193, 257, 299
  - Escrow arrangement, 598, 601, 628, 630, 641, 643, 648-649
  - Financial aid to Iran, 407-408
  - Hoover factfinding mission, 815-819
  - International arbitration, 432-433, 435-437, 441-442, 448-449, 451, 461-462, 464-469, 505-507, 549, 558-562, 582-585
    - Meetings with American oil companies, 848-850, 852-854, 911-915
    - Participation percentages, 899-901, 916-918, 920-921, 924-928, 931, 942-943, 949-950
  - Lump-sum settlement, 506-507, 535, 537-538, 549-551, 573, 601, 655, 663, 678, 986, 1039, 1043
  - Nationalization of, 2591, 109, 111
  - Political consequences for Britain, 279-280
  - Political interference in Iran, 94, 106, 114, 176, 181-182, 218, 241, 323, 820, 838
  - Purchasing Organization, 215, 245, 247, 251-253, 322, 345
  - Return to Iran, 110, 111, 114, 182, 825, 848*n*,-849*n*, 853, 857, 893, 924, 995
  - Shipping and marketing services, 112, 182-183
- Anglo-Iranian Oil Company—Continued
  - Supplementary Agreement of *1949*, 2*n*, 466-467, 478, 496-497, 1045
  - U.S. proposal for formula of settlement, 489-490
  - U.S.-U.K. joint proposal, 471-472, 495-498
- Antisabotage law. *See under* Nationalization of oil industry in Iran.
- Antitrust laws and U.S. oil companies, 539, 773-775, 795, 854, 861-862, 864, 888, 893, 894*n*, 901-902, 905, 909-910, 1049-1051
- Aramco, 951, 989
- Arbitration Agreement, 582-585, 591-592, 611-615, 636, 638-642, 647-651, 656-661, 665-670
- Arbitration Board/Panel (*see also* International Court of Justice), 565-566, 576, 579-580, 591-592, 598, 653, 967
- Ardalan, Nasr Qoli, 100*n*, 192
- Argentina, 289
- Aria, 571*n*, 585*n*
- ARMISH agreement, 294, 297, 744, 757, 832-833, 937
- Armstrong, William, 953-954
- Ashrafi, Mir, 735, 895
- Attlee, Clement R., 121-122
  - Attlee-Truman exchange, 62-63, 154-155
  - British personnel expulsion order, 174-175
  - Stokes mission, 150-152
- Austin, Warren R., 196-201, 211-213, 218-220, 231

- Baharmast, Gen. Qolam Mahmud, 686
- Bank Melli, 381-382, 397, 501, 550, 793, 794, 1005, 1007, 1055
- Bank of England, 1007, 1023*n*
- Baqai, Mozaffar, 211*n*, 515, 681, 720, 726, 1027
- Barnes, Robert G., 156-159
- Barnes, Stanley N., 773-774, 908-909, 983-985
- Basis for settlement in AIOC dispute, 252-254
- Batmanqilich, Gen. Nader, 753, 757, 892
- Battle, Lucius D., 58*n*,60*n*, 222-224
- Battle Act. *See* Mutual Defense Assistance Control Act of *1951*.
- Baxter, William O., 1049-1050, 1057-1059
- Bayat, Morteza Qoli, 100*n*, 410, 474-475
- Beckett, William Eric, 392, 1037
- Beecher, Adm. William G., 955
- Beeley, Harold, 899-901
- Benes, Eduard, 748
- Berry, Burton Y.:
  - AIOC dispute, 320, 393-395
  - IBRD proposal, 348-349
  - MSA and Iranian compliance, 305-311
  - Political situation in Iran, 911, 746-748
- Bihbihani, Ayatullah, 784
- Black, Robert B., 928-930, 1055-1057
- Black, Eugene R., 1055-1057
- Bohlen, Charles E., 336-338

- Bonbright, James C.H., Jr.:
  - AIOC dispute, 258-260
    - Basis for settlement, 249-255
    - British personnel withdrawal, 98-99
    - Harriman mission, 156-159
    - International arbitration, 540-541, 563-564, 573-574, 605-606
    - Mosadeq counterproposal, 482-483
    - U.S. position, 714-715
  - Economic assistance to Iran, 284-286
  - Export-Import Bank loan, 159-161, 544*n*
  - Military policy on Iran, 510-513
  - Political situation in Iran, 702-703
- Borel, Paul A., 328-330
- Borujerdi, 720
- Bradley, General of the Army Omar N., 528-529
- Brand, Lord, 281
- British Coal Industry Nationalization Act, 541, 560, 571, 583, 594-595, 644, 652-653, 673
- British Oil Company, 94
- Brown, Ben H., Jr., 305-311
- Brownell, Herbert, Jr., 861-862, 898, 901-902, 908-911, 983-984, 1049-1051
- Bruce, David K.E.:
  - AIOC dispute, 446*n*, 527
    - International arbitration, 462-463, 470
    - Mosadeq counterproposal, 482-483
    - Principle of nationalization, 272-274
    - Truman's response, 538-539
    - U.S.-U.K. joint proposals, 537-538, 553-554
  - Export-Import Bank loan, 552-553
  - Political situation in Iran, 439-443
  - U.S. foreign policy towards Iran, 430-432
- Bryan, Belton O., 714-715
- Budgetary assistance to Iran. *See* Economic assistance to Iran.
- Burrows, Bernard B.A., 42*n*, 658
  - Export-Import Bank loan, 91*n*, 555, 556
- Busheri, Javadi, 101, 133, 135, 370, 372
  - AIOC dispute, 100, 120, 211*n*
  - Harriman mission, 105, 107, 111, 117
  - Prime Minister, candidate for, 382, 399, 405-406
- Butler, Richard Austen, 694*n*
- Butler, Victor S., 500, 508*n*, 804*n*
- Butterworth, W. Walton, 852-854, 893
- Byroade, Henry A., 544*n*, 561*n*, 945, 1017
  - AIOC dispute:
    - Compensation issue, 596-597, 964-965
    - Escrow arrangements, 584, 807
    - Hoover factfinding mission, 808-809, 828-829
    - IBRD proposal, 806-807
    - International arbitration, 570-573, 581*n*, 582*n*, 585-589, 591-593, 604-605, 607-609, 616-620, 651*n*, 659-664
    - Mosadeq-Eisenhower exchange, 732-733
    - Mosadeq counterproposals, 479-480, 488-490
- Byroade, Henry A.,—Continued
  - AIOC dispute—Continued
    - Mosadeq proposal, 444-445
    - U.S. position, 714-715
    - U.S.-U.K. proposals, 534-537, 537-538
  - Arbitration agreement, 611-615, 636, 647-651, 656-658,668-670
  - DMPA agreement, 596-597, 609-611, 636-637
  - Economic assistance to Iran, 429-430, 855-856, 1057-1059
  - International consortium, 542-543, 802-804
    - Agency-type arrangement, 1007-1008
    - Nationality of operating companies, 1003*n*, 1004*n*
    - Memorandum of Understanding, 983-984
    - Participation percentages, 923-924, 931-932, 940-941
  - Middle East defense arrangements, 947-949
  - Military assistance to Iran, 806*n*, 928-930, 933-934
  - Military policy on Iran, 510-513
  - Political situation in Iran, 508-510
  - Zahedi government, U.S. position, 760-761, 790-791

- Cabell, Lt. Gen. Charles P., 771-772, 755-756
- Caccia, Harold A., 917-918, 953, 965-966, 968-969
- California Standard. *See* Standard Oil Company of California.
- Capper, Maj. Francis, 131*n*, 135
- Cartel suit. *See* Antitrust laws and U.S. oil companies.
- China, 242, 289
- Churchill, Winston S., 266 278, 281, 304-305, 365
  - AIOC dispute, 336, 447-449, 730
    - International arbitration, 452-453, 455-456, 461-462, 469*n*, 471
    - Jones visit, 445-446
    - Mosadeq counterproposals, 479-481
- Cities Service Corporation, 445*n*, 574, 702*n*, 789
- Colombia, 228
- Communism in Iran (*see also* Iran, relations with *under* Soviet Union; Tudeh Party), 304, 329, 346-347, 416-417, 420, 422, 434, 475, 662*n*, 691-692, 741, 781, 870-871, 1068-1071
- Compagnie Française des Petroles, 852, 913, 973, 1053*n*
- Compensation Agreement (*see also* Anglo-Iranian Oil Company, Compensation issue; Arbitration Agreement; International consortium; International Court of Justice), 1046
- Consortium Agreement (*see also* International Company; International consortium), 1045-1046
- Corbett, Jack C., 1030-1031, 1039-1040

Cornwallis, Kinehan, 403
Coulson, John E., 197
Crosby, Oliver S., 67*n*
Crowl, Richard B., 921-922, 1057-1059, 1061
Cutler, Robert, 711-713, 773-775, 789
  International consortium, 864-865, 909
  U.S. policy on Iran, 692, 696, 700, 858-859, 861, 1009, 1011
Czechoslovakia, 289, 320, 329

D'Arcy, William Knox, 478*n*
D'Arcy Agreement, 444*n*, 478
Dashti, 409-410
Defense Materials Procurement Agency, 501, 507
  Iranian oil purchases advance, 518-523, 536, 538, 560-561, 566, 568, 569*n*, 571-574, 576-578, 581, 583-585, 586*n*, 588-593, 596-599, 600*n*, 601-604, 607-609
    DMPA agreement, 607611, 636-637, 639, 641, 646, 650-651, 660
Defense Production Act Amendments of *1951*, 518*n*
Defense Production Act of *1950*, 518, 520-521, 532, 539, 862, 870, 888-889
Dixon, Ben F., 928-930
Dixon, Pierson, 548, 553, 582*n*, 584-585
  AIOC dispute:
    International arbitration, 588, 604-605, 619
    Lump-sum settlement, 550-551
  U.K.-Iranian relations, 822
Dorsz, Edmund J., 67, 159-161
Drake, Eric, 70, 90
Dulles, Allen W., 737-738, 740, 1010
Dulles, John Foster, 661*n*, 728*n*, 781, 814
  AIOC dispute:
    Arbitration agreement, 662-664
    International consortium, 897-898, 930-931, 1010
    U.S. position, 714-715
  NSC meetings on Iran, 692-701, 711-714, 771-775
  NSC policy on Iran, 859-862
  Political situation in Iran, 691-692, 702-703, 790-791
Dunn, James Clement, 550-551, 555
Dutch Shell. *See* Royal Dutch Shell.

Eakens, Robert S.H., 998-999
Earman, S.J., 328
Ebtehaj, Abol Hassan, 801, 986, 1028, 1056-1058
Economic assistance to Iran (*see also* Export-Import Bank loan to Iran; International Bank for Reconstruction and Development; International Monetary Fund; Military assistance to Iran), 17, 29, 30*n*, 37, 180, 185-186, 215, 234-235, 241-244, 268, 275-278, 284-285, 288-295, 323-327, 330-332, 341-344, 380, 387-388, 428, 432-433, 455, 460*n*, 467, 469, 550, 564-565, 710, 716-719, 727-728, 775-777, 791-794, 855-856, 867, 1054-1061
Economic assistance to Iran—Continued
  British aid, 444, 452, 463
  Budgetary aid, 290, 323, 328, 332, 336-337, 339, 418, 429, 422-423, 532, 552, 569, 917*n*, 946-947
  Emergency assistance, 330, 871, 918-920
  Point IV program, 28, 30, 45, 272, 286, 294, 312, 387, 509, 552, 775, 856
  TCA program, 306-307, 332-333, 339, 546, 564-565, 717-718
  U.S. grant, 452, 454, 456, 458, 463, 467, 479, 492, 512
Economic situation in Iran, 424-425, 517*n*, 743, 873-881
Eden, Anthony:
  AIOC dispute, 279-283, 313, 360-361, 845
    British position, 256-258, 260
    Compensation issue, 965-968, 1019-1020
    Hoover factfinding mission, 808-809
    IBRD proposal, 314-315, 344, 352-353
    International arbitration, 582-589, 704
    International consortium, 920, 965-968
    Lump-sum settlement, 550-551, 556, 557*n*
    Mosadeq counterproposal, 479, 483*n*, 484, 490-491
    U.S. proposal, 490*n*, 493-494
    U.S.-U.K. joint proposal, 471*n*, 472*n*, 536-537
  American technicians in Abadan Refinery, 702-703
  DMPA advances, 596-597, 619
  Eden-Zahedi exchange, 824-825
  Export-Import Bank loan, 555-556
  Military assistance to Iran, 379*n*, 380-381
  Political situation in Iran, 434-437
  U.K. economic assistance to Iran, 407-408
  U.K.-Iranian relations, resumption of, 814-815, 842-844
Edgerton, Maj. Gen. Glen E., 1056-1059
Egypt, 561*n*, 667, 697, 791
Eisenhower, Dwight D., 698, 762, 781, 1011
  AIOC dispute, 732-736, 750
  Eisenhower-Zahedi exchange, 765-766
  NSC meeting on Iran, 692-701, 693-695
  Shah's visit to U.S., 1037-1038
Elkington, E.H., 130
Emergency assistance to Iran. *See* Economic assistance to Iran.
Emmerglick, Leonard J., 512*n*, 525-527, 984-985
Entezam, Abdollah, 382, 386, 770, 920
  U.K.-Iranian relations, resumption of, 843-844, 890
Entezam, Nasrollah, 43, 119*n*, 190, 192, 211
Export Company, 574

Export-Import Bank loan to Iran, 17, 9, 13, 28, 45, 47, 49, 71, 91*n*, 136-137, 149-150, 159-162, 215, 245, 268-269, 286, 312-313, 324, 387, 455, 489, 544-546, 552-553, 555, 557-558, 919-922, 991, 1055-1056

Faisal, King of Iraq, 747
Farley, Hugh D., 792-793
Farzanegan, 792-793
Fatemi, Hossein, 138, 688, 754, 757, 783, 785
Ferguson, C. Vaughan:
  AIOC dispute, 67-68, 258-260
    AIOC nationalization, 25-26, 42-43
    British position, 393-395
    Harriman mission, 156-159
    IBRD proposal, 287-288, 344-346, 348-349, 356, 370-371
  Economic assistance to Iran, 28-30, 284-286, 336, 338-341
  Export-Import Bank loan, 159-161
  Military assistance under MSA, 305-311, 375-376, 378-379
  Political situation in Iran, 8, 346-347, 386-389
Ferguson, John Haven, 462-463
Fergusson, Donald, 265-266
Financial assistance to Iran. *See* Economic assistance to Iran.
Fisher, Adrian S., 540-541, 586*n*, 588, 589, 605-606
FitzGerald, Dennis A., 1061
Flett, M.T., 500
Foreign aid. *See* Economic assistance to Iran; Military assistance to Iran.
Foreign trade (*see also* Sterling payments; Sugar trade), 1035-1037
Foster, Austin T., 849*n*
Fowler, Henry H., 520
Franks, Oliver S.:
  AIOC dispute, 79, 81-82, 89-91, 103, 105, 163, 224*n*, 317-319, 353, 353*n*, 446
    Harriman mission, 89-91, 116-117
    International arbitration, 457, 461
    U.K. position, 30-35, 37-42, 51-54
    U.N. resolution, 184-185, 194-195, 199, 209-210
Fraser, William, 917
  AIOC dispute, 60*n*
    Compensation question, 949-950
    International consortium, 845*n*, 846*n*, 913-915, 952-954, 958, 963, 965-966, 971, 984*n*, 995-996
    Meetings with American oil companies, 848-850, 852-854, 877
French oil companies (*see* also Compagnie Française des Petroles), 931, 940-943, 954, 971-972, 996, 1010
Fretchling, Louise E., 928-930
Funkhouser, Richard, 25-26
Furlonge, Geoffrey, 11, 35, 42, 79

Gaitskell, Hugh, 92. 97, 116, 118*n*, 121
Garner, Robert L., 282, 287-288, 303*n*
  AIOC dispute, British position, 364-365
Fraser, William, 917—Continued
    IBRD proposal, 301-303, 317, 348-354, 356-360, 371
Gass, N.A., 345
Gass-Golshayan agreement. *See* Supplementary Agreement of *1949 under* Anglo-Iranian Oil Company.
Gaston, Herbert E., 269, 544-545, 546*n*
GENMISH, 937
Gifford, Walter S., 379*n*, 552*n*
  AIOC dispute, 69-71, 115, 194*n*, 359-361, 364-365, 484, 551
    Compensation question 499-501
    International arbitration, 522-525, 562*n*, 582-585
    Iran Cabinet proposals, 126, 129
    U.N. resolutions, 188-190, 201-202, 205-208
    U.S. proposals, 490, 493-494
    U.S.-U.K. joint proposals, 504-508
    U.S.-U.K. meetings, 502-503
  Arbitration agreement, 620-621, 638-642
  DMPA agreement, 621, 639
  Harriman mission, 108*n*, 114, 118-120, 123
  IBRD proposal, 357-358
  Mosadeq government, 413-414
  U.K. threat of force in Iran, 54-56
Gillette, Guy M., 544
Gleason, S. Everett, 71*n*, 72*n*, 692-701, 711-714, 771-775, 858-864, 897-898, 907-911, 1008-1012
Gordon, Col., 928-930
Grady, Henry F., 8*n*, 51*n*, 80*n*, 162*n*
  AIOC dispute, 54*n*, 61*n*, 7981, 8687, 124-125, 153-154, 204
  Economic assistance to Iran, 30*n*, 4546
  Export-Import Bank loan, 1*n*, 3*n*, 46, 149-150, 161-162
  Mosadeq government, 48-49
  Oil nationalization law, 57-59, 64-65
  Political situation in Iran, 46, 46-47, 153-154
Gray, Helen P., 67*n*, 1066-1068
  Hoover factfinding mission, 808-809
  International consortium, agreement in principle, 1043-1044
  Political situation in Iran, 346-347
Greece, 388
Gross, Ernest A.:
  AIOC dispute, 190-193, 196-199, 201*n*, 211-212, 218-220, 224-230
Gulf Oil, 41, 849*n*, 852, 973, 1003, 1053*n*
Gutt, Camille, 494, 507, 550

Haerizadeh, Seyed Abol Hasan, 362, 719, 720
Hague Court. *See* International Court of Justice.
Hakimi, Ebrahim, 382, 390-392, 399-400, 405-406
Harden, Orvil, 954, 973, 998, 1001, 1022
Harriman, W. Averell (*see also* Harriman mission), 321, 379*n*
Harriman mission, 85, 87, 88-173, 207

- Hassibi, Kazem, 94, 130, 356, 757
  - AIOC dispute, 248, 358
  - Harriman mission, 102-103, 107, 109, 109*n*
- Heald, Lionel, 392
- Hejazi, Maj. Gen. Abdol Hossein, 427
- Hekmat, Sadr Fakhr, 177, 384, 1048
- Henderson, Loy W., 162*n*, 415*n*, 1062
  - AIOC dispute, 178-179, 192, 262*n*, 323-327, 425-426, 549-550, 728-729, 802*n*, 807*n*, 857-858
    - British personnel expulsion order, 164-167, 179
    - British threat of force, 177-178
    - Compensation issue, 960-962, 970-971, 1046
    - International arbitration, 461, 464-469, 540-541, 559-560, 562, 565-569, 575-580, 588*n*, 593-595, 599*n*, 600*n*, 601*n*, 602-604, 621-630, 642-647, 651-655, 665-667, 703-706, 709-710, 721-722
    - Lump-sum settlement, 551, 677-678
    - Mosadeq counterproposal, 484-488
    - Mosadeq government and, 174-177, 262-265, 684
    - U.N. resolution, 203-204
    - U.S.-U.K. joint proposal, 472*n*, 473-475
    - Zahedi government proposals, 820-821
  - Arbitration agreement, 630-633, 662, 670-674
  - Commendation, 808, 835*n*, 854, 1044
  - DMPA agreement, 590*n*, 634-635
  - East-West trade agreements, 789-790
  - Economic assistance to Iran, 288-295, 298, 323-327, 330, 341-344, 432-433, 454-455, 460*n*, 463, 716-719, 727-729, 791-794, 918-920, 1059-1060
  - Economic situation in Iran, 421-425, 517*n*
  - Eisenhower-Zahedi exchange of letters, 775-778
  - Export-Import Bank loan, 544*n*, 545-546, 557-558
  - IBRD proposal, 301-305, 321-322, 349-352, 354-357, 365-369
  - International consortium, 806-807, 913*n*, 916-917, 975,987-994, 1004-1007, 1021*n*, 1031-1035, 1044-1047
    - Agency-type agreement, 998, 1002-1004, 1026
    - Compensation negotiations, 976-977, 986, 1018-1019, 1043
    - Consortium agreement, 1053-1054
    - Management arrangements, 999-1001
    - Nationality of operating company, 1016-1017
  - Iranian armed forces, 805-806, 954-958, 1023-1024
  - Majlis elections, 891-892, 894-896, 899
  - Middle East defense, 850-852
  - Military assistance to Iran, 334-335, 371-378, 934-940, 943-947

- Henderson, Loy W.—Continued
  - Mosadeq government, 180*n*, 396-400, 407, 409-412, 450, 752-758, 762-765
  - Mosadeq and Qavam, 416-421
  - Mosadeq and Shah conflict, 679-681, 692*n*, 706-708, 715-716, 719-721, 723-727, 730-732
  - Political situation in Iran, 236-240, 260-262, 361-364, 381, 384-386, 389-392, 404-406, 409-412, 427-428, 438-439, 458-460, 513-517, 674-677, 681-683, 685-689, 701-702, 703*n*, 748-752, 1026-1028
  - Recall from Iran, 694-695, 700
  - Shah's visit to U.S., 1068-1071
  - Soviet Union, relations with Iran, 779-780
  - U.K.-Iranian relations, 488*n*, 498-499, 503-504, 777-779, 829-831, 838-839, 843*n*, 846-848, 890
  - Zahedi government, 759-760, 797-801, 815-819, 840-842, 1012, 1022*n*, 1047-1049
- Hickerson, John D., 209
- Holmes, Julius C., 147*n*, 171-173, 416*n*
- Hoover, Herbert, Jr., 789*n*, 814, 1011, 1017, 1044, 1062
  - AIOC dispute, 795-796, 821-822, 825-828, 848*n*, 849*n*
    - Antitrust matter, 894*n*, 1051
    - Compensation issue, 968-969
    - Iranian memorandum, 828-829
    - Sterling payments arrangements, 1035-1037
  - Economic assistance to Iran, 1055, 1057-1059, 1061
  - Export-Import Bank loan to Iran, 921-922
  - Hoover factfinding mission, 807*n*, 808-810
  - International consortium, 844-845, 852-854, 897, 905, 913-915, 953-954, 972-976, 982, 1009-1010, 1020-1022, 1028-1029, 1030, 1033-1035
    - Agency-type agreement, 998, 1002-1004, 1025-1026
    - Agreement in principle, 1038-1039
    - AIOC participation, 917-918, 920-921, 923-924
    - Antitrust laws, 1049-1050
    - Compensation issue, 958-959, 963-964, 965-968, 976-977, 986
    - Management problems, 994-998
    - Nationality of operating companies, 1022-1023
    - Percentage of participation, 931-932, 940-941, 942-943, 971-972
    - U.S. position, 950-953
  - Iranian oil situation, 906-907, 911-913
  - Shah's visit to U.S., 1074-1077
- Howe, Fisher, 100*n*, 109*n*, 1041-1042
- Humphrey, George M., 697-699, 1003, 1022-1023, 1035-1037

- Imam, Jumeh, 405-406
- India, 219, 220-221, 231, 243, 887

Intelligence Advisory Committee, 836*n*
International arbitration. *See* Arbitration agreement; Arbitration Board/Panel; International Court of Justice.
International Bank for Reconstruction and Development, 2, 9, 13, 162, 282-283, 287-290, 297, 301-305, 313-314, 321-322, 324, 337-346, 348-359, 363, 366-371, 383, 803, 806, 809-810, 818, 821, 826, 828, 845, 854, 991, 1054-1057
International company (*see also* International consortium), 575, 579, 581, 583-585, 598*n*, 599, 601-602, 607-609, 646, 820
International consortium (*see also* Antitrust laws and U.S. oil companies; International company), 505, 507, 802-804, 825, 826*n*, 844-846, 877, 888, 893-894, 897-898, 901-904, 906-907, 987-994, 1009, 1028-1029, 1031-1035, 1038-1039
  Agency-type arrangement, 998-999, 1002-1004, 1007-1008, 1021, 1025-1026
  Agreement in principle, 1043, 1043*n*, 1047
  Antitrust laws, 1049-1050
  Compensation issue, 990-991
  Location of headquarters, 996-997
  Meetings with American oil companies, 848-849, 898, 913-915, 923-924, 924-925, 1002*n*
  Memorandum of Understanding, 978-981, 982-985
  Nationality of management, 995-996
  Nationality of operating companies, 995, 1003*n*, 1004*n*, 1016-1017, 1022-1023, 1032
  Percentage of participation, 899-901, 914-915, 926-928, 930-931, 940-941, 949-950, 954, 973
  Proposed Iranian Consortium Plan, 902-904
International Court of Justice (*see also* Arbitration Agreement; Arbitration Board/Panel):
  AIOC dispute, 81-89, 90*n*, 91, 97, 106, 112*n*, 113, 117-119, 121, 168, 173, 190, 198-201, 205, 230-231, 246, 313, 353, 360, 381, 383*n*, 384-385, 389, 397, 404, 413-415, 437, 503, 540, 549, 553-554, 560-561, 563-566, 570, 579-580, 582, 586, 591-592, 703, 705, 713, 722
  Compensation question, 444-445, 448, 451-453, 458, 461-462, 465-466, 470, 474-475, 477-478, 495-497, 522, 652-653
  Hearings, 392-393
International Export Company (*see also* International Company), 591, 602, 603
International Monetary Fund, 271-272, 285, 297, 339-344, 349, 455, 878-879
International Oil Corporation, 572
International Oil Distributing Company, 489-490
Iran. *See Iran and Iranian subheadings under other subjects.*
Iran Party, 362, 434, 437, 475, 726, 892
Iranian armed forces, 831-834, 850-851, 884-887, 928-930, 943-947, 954-958, 1023-1024
Iranian National Oil Company. *See* National Iranian Oil Company.
Irano-Soviet Treaty of *1921*, 889
Iraq, 221, 243, 694, 783
  Defense arrangements, 833-834, 851, 886, 955, 1072, 1075
  Iran, relations with, 770, 870, 928
  Oil industry, 41, 216, 456, 500, 986, 1031
Iraq Petroleum Company, 996
Israel, 697, 700

Jackson, Basil, 76
  AIOC dispute, 65-66, 80, 110, 112, 114, 125, 149
Jackson, C.D., 696-697, 699-700
Japanese Peace Treaty, 205
Jebb, Sir Hubert Miles Gladwyn, 190-192
  AIOC dispute:
    British personnel expulsion order, 196-199
    U.N. resolution, 201*n*, 218-219, 225
Jernegan, John D., 688*n*, 944, 1017, 1051, 1061
  AIOC dispute:
    Compensation issue, 964-965
    International arbitration, 558-561, 563-564, 573-574, 580-581, 589-591, 598-602, 604-605
    Mosadeq counterproposal, 482-483
    U.S. position, 714-716
    U.S.-U.K. joint proposal, 471-472
  Export-Import Bank loan, 552-553
  Hoover factfinding mission, 809-810
  International consortium, 949-950, 998-999, 1020-1022
  Military assistance to Iran, 1052-1053, 1063-1066
  Mosadeq and Shah conflict, 691-692
  Political situation in Iran, 439-443, 702-703, 741
  Shah's visit to U.S., 1066-1068, 1073-1076
Jersey Standard. *See* Standard Oil Company of New Jersey.
Joint Chiefs of Staff, 694, 697
  Military assistance to Iran, 1063-1065
  Military requirements for Iran policy, 512-513
  Policy on Iran, 23, 72*n*, 76*n*, 859, 863-864
  Soviet Union, relations with Iran, 220-222
Joint Oil Commission/Committee, 48-49, 211*n*
Joint United States-Iranian Economic and Social Development Commission, 564-565
Jones, W. Alton, 445-447, 662*n*, 702, 789

Kalijarvi, Thorsten V., 1061

Karaj Dam, 1056, 1058
Kashani, Seyed Ayatollah Abdol Ghassem, 105, 153, 239, 362, 377, 382, 384, 405, 415, 434, 438-439, 475, 509, 720, 787, 895
  Mosadeq and, 676, 681, 689-690
  Political influence in Iran, 513-517
  Political situation in Iran, 724-725
  Shah and, 685, 689, 693, 707, 719
Kazemi, Seyed Baqer, 370, 372, 377-378, 676-677, 720-721
Kemp, Norman, 132*n*
Kennedy, Donald D., 1030
Kermanshah Petroleum Corporation, 133
Kermanshah Refinery, 99, 252, 958, 961-962, 966, 968, 970, 977, 977*n*, 1034, 1045, 1046
Kiani, Gen. Ataollah, 744, 757-758
Koegler, George, 984-985, 1050*n*, 1051
Korea, 226, 270, 935
Krock, Arthur, 739
Kuwait, 41, 76, 252*n*, 500, 547, 550, 882, 986, 1003, 1031

Landry, Gen. Robert B., 92, 121
Larson, Jesse, 520
Lay, James S., Jr., 21*n*, 23-24, 44, 528, 529*n*
Leather of Purfleet, Lord, 258, 281, 583-585
Lemnitzer, Lt. Gen. Lyman L., 1076
Levy, Walter J., 140*n*
  AIOC dispute, 100*n*, 502
    Harriman mission, 92-93, 95, 102-103, 109*n*, 111, 114, 121
  Stokes mission, 132*n*, 140-143, 145
Linder, Harold F.:
  AIOC dispute, 258, 353*n*, 359-361
    Basis for settlement, 249-255
    IBRD proposal, 288*n*, 348-349, 357-358
    International arbitration, 540-541, 558-561, 563-564, 573-574, 580-581, 589-591, 600-602, 605-606, 662-664
    Mosadeq counterproposal, 482-483
    U.S. position, 714-715
  Economic assistance to Iran, 284-285
  Export-Import Bank loan, 544-546, 552-553
Loudon, John Hugo, 994
Love, Kenneth, 745
Lovett, Robert A., 163-164, 170*n*, 450*n*
  Military policy on Iran, 510*n*, 513
  Soviet domination in Iran, 220-222
Luns, Joseph M.A.H., 197

McClure, Brig. Gen. Robert A., 757, 834, 850, 929, 946, 1011
  Iranian armed forces, 957, 1023-1024
  Military assistance to Iran, 795, 1052-1053
McGhee, George C., 259*n*
  AIOC dispute, 59*n*, 67-68, 81-82, 88-91, 119*n*, 180-183, 194, 231-236, 258-260, 267-268, 270-272, 283-284
    British personnel expulsion order, 169-170

McGhee, George C., 259*n*—Continued
  AIOC dispute—Continued
    British personnel withdrawal, 98-99
    Compensation issue, 213-214
    Harriman mission, 156-159
    U.K. position, 30-37, 37-42, 42*n*, 43*n*, 51-54, 79
    U.N. resolutions, 224-230
  Economic assistance to Iran, 215, 244-249
  Export-Import Bank loan, 6*n*, 91*n*, 159-161
McGranery, James P., 511*n*, 512*n*
McNair, Lord, 566, 579, 580, 598
Majlis, 29, 96, 336, 438, 677, 919, 1054
  AIOC dispute, 144*n*, 145, 247, 368-369, 466-467, 665
  Committee of Eight, 715-716, 719, 723-724, 726, 733
  Dissolution of, 4*n*, 5, 70, 535, 735-737, 742-743, 750, 786-787, 810-812
  Elections, 798-799, 810, 891-892, 894-896, 899
  Export-Import Bank loan, 15, 136, 161, 545
  Mosadeq government and, 48-49, 119, 122, 145, 177, 187, 195, 262*n*, 708
  Nationalization of oil industry, 25, 27, 44, 79
  Oil settlement, 1047-1048
  Shah's departure plans, 685-686
  Special Oil Commission/Committee, 25*n*, 44, 45*n*, 109, 113
  U.S. economic assistance and, 291-294
Maki, Hosein, 116, 118, 131, 134-135, 362, 382, 681, 707, 720, 891
Makins, Roger M., 320, 1035
  AIOC dispute, 400-403, 407, 651
    IBRD proposal, 317, 319
    Sterling payments arrangements, 1039-1041
    U.N. resolution, 188, 208*n*
    U.S.-U.K. relations, 327-328
  International consortium, 930-931, 942
  NIOC, 402-403
Mansour, Ali, 382, 390-392, 399, 405-406
Marcus, 571, 584-585, 598*n*, 599-600
Maris, Dennis, 281
Mason, Alick, 70*n*
Matin-Daftari, Ahmad, 100*n*
Matthews, H. Freeman:
  AIOC dispute, 59*n*, 67-68, 88-89, 258-260
    Basis for settlement, 249-255
    British personnel withdrawal, 98-99
    Harriman mission, 156-159
    IBRD proposal, 348-349
    International arbitration, 462-463
  Economic assistance to Iran, 13, 284-286, 336-338
  Military assistance to Iran, 375-376, 378-379
  Military policy on Iran, 510-513
  Political situation in Iran, 386-389
  U.K. position on AIOC dispute, 51-54

Mattison, Gordon H., 541, 745
  AIOC dispute, 543-544
  Political situation in Iran, 733-739, 742-744
Maud, John R.P., 583, 605
  International consortium, 917-918, 953
Maurer, Ely, 1051
Merchant, Livingston T., 305-311, 336-338, 924-925
Metzger, Stanley D., 556-561, 563-564, 573-574
Mexico, 216, 227-228, 506, 622
Middle East defense, 831-834, 851-852, 881-884, 928-930, 934-940, 943-949, 954-958, 1023-1204, 1052-1053, 1071-1073, 1076
Middle East Defense Organization, 14, 697
Middleton, George H., 121, 190-191, 407
  AIOC dispute, 364, 366, 403, 425426, 445, 490
    British personnel in Abadan, 197-198
    British position, 262*n*, 395
    International arbitration, 423, 461-469
    Mosadeq counterproposal, 482-483
    U.S.-U.K. joint proposal, 471-474
  Economic assistance to Iran, 401-402
  IBRD proposal, 357, 369
  Mosadeq government, 399, 400*n*, 401, 411-412
  Political situation in Iran, 427-428, 434
Military Assistance Advisory Group, 832-833, 884, 1063*n*, 1066
Military assistance to Iran (*see also* Mutual Defense Assistance Control Act of *1951*; Mutual Security Act of *1951*), 13-15, 22, 28, 37, 45, 50, 217, 286, 295-299, 334-335, 338, 379, 388, 420-421, 509, 856, 868, 871, 884-887, 928-930, 933-940, 943-947, 1052, 1063-1066
  ARMISH agreement, 294, 297
  Defense, Department of, arguments, 307-310
  Iranian Army, 799-800, 831-834
  MSA and Mosadeq assurances, 306-307, 312, 371-379
  U.S.-U.K. Foreign Ministers meeting, 311-321
Mixed Oil Commission of Iran, 96, 100*n*, 102, 107, 112*n*, 124, 130, 132-134, 369, 727, 736*n*, 786
Mohanna, Gen., 688, 757
Morrison, Herbert S., 121
  AIOC dispute, 44, 60, 67, 6971, 80, 81-84, 103-104, 116, 256
    Harriman mission, 90*n*, 118, 129
    U.N. resolutions, 205-208
Mosadeq, Mohammad, 47, 286, 323*n*, 840
  AIOC dispute, 11, 52*n*, 62*n*, 77-79, 86-87, 119-120, 164-167, 179, 181-182, 262-265, 283-284, 424-425, 598*n*, 717
    Counterproposals, 477-480, 485-488, 684*n*
Mosadeq, Mohammad—Continued
  AIOC dispute—Continued
    Eisenhower-Mosadeq exchange, 734-735
    Harriman mission, 93-95, 99-100, 102, 122-124
    IBRD proposal, 301-303, 348-349, 366-369
    International arbitration, 423, 428-429, 435-437, 464-469, 559-561, 565*n*, 569*n*, 570-573, 575-577, 585-589, 621-627, 651-655, 665-667, 703-706, 709-710, 721-722
    Iranian proposals, 162-163, 415*n*, 416
    Stokes mission, 130-131, 134, 137-140, 144-145, 147-148, 232
    Strengthening position of, 201*n*, 202*n*
    U.N. resolution, 224*n*, 231-236
    U.S.-U.K. joint proposal, 473-474, 476-479, 476*n*, 485, 540-541, 543-544
  Arbitration agreement, 621-627, 629-633, 636, 638-642, 659-662, 669-674
  Conflict with Shah, 680-683, 686-687, 706-708, 715-716, 719-721
  DMPA agreement, 621-627, 627-629, 634-637, 646
  Economic assistance to Iran, 180, 241-249, 288-291, 328-331, 336, 339, 342-344, 564-565, 717-719, 727-728
  Export-Import Bank loan, 161-162
  Government of, 25-91, 174-177, 181, 186-187, 368-369, 381-382, 383*n*, 387-389, 390, 409, 413, 417, 438, 666-667, 674-677, 688, 744-745, 753, 755, 757, 782, 786
  Health of, 64, 213, 218, 236, 458, 565, 686, 735
  Majlis and, 119, 195
  Military assistance under MSA, 306-307, 312, 371-379
  Nationalization law, 46-47, 57-59, 95, 97-98, 151
  Political situation in Iran, 458-460, 748-752, 783-784
  Replacement of, 51, 94, 153, 183*n*, 259, 262*n*, 263, 275, 282, 295-296, 299, 384-386, 509
  U.N. resolutions, 203-204, 211-213, 224-230
  United Kingdom, relations with, 498-499, 503-504
  Visit to U.S., 211*n*, 230, 236, 241-300
Muniz, João Carlos, 219, 225
Murphy, Robert D., 1074-1075
Mutual Defense Assistance Act of *1949*, 297
Mutual Defense Assistance Control Act of *1951*, 295-298, 717, 789*n*, 790
Mutual Security Act of *1951*, 286, 305-312, 321, 324, 334*n*, 341, 371-376, 379-381, 387, 773
Mutual Security Administration, 699

Naft-I-Shah oil field, 958, 961-962, 966, 970, 977, 1034, 1045-1046

Naguib, Gen. Muhammad, 667, 682
Nasiri, Col. Nematollah, 746, 782
Nasser, Ali Asquar, 1005, 1055, 1058
National Front, 105, 237-240, 247, 347, 350-351, 360, 361-364, 382, 399, 405, 415, 422, 427, 434-435, 438, 508-510, 514-517, 535, 680, 731, 735-736, 783, 786
National Intelligence Estimates, 836-837
  NIE *75*, 526, 530*n*, 531*n*
  NIE *102*, 871-889
National Iranian Oil Company (*see also* Defense Materials Procurement Agency), 64*n*, 66, 93, 96, 106, 110-111, 115, 134*n*, 139, 140*n*, 141-145, 151, 182-183, 213, 234, 248, 250-251, 267, 274, 394, 489-490, 548, 571, 574, 578, 581, 599, 601, 603, 607-608, 695, 820-821, 988, 1001, 1053*n*
  Basis for settlement, 252-254
  British personnel, 354, 356, 359, 360, 364, 394
  British technicians, 366-368, 385
  Management Agency, 401*n*, 402, 407, 414
National Security Council:
  Actions:
    No. *454*, 72*n*, 902-903
    No. *473*, 4445
    No. *500*, 222*n*
    No. *659*, 432*n*
    No. *680*, 527*n*, 530*n*
    No. *729-b*, 711-713
    No. *735*, 713714
    No. *766*, 771-775, 908911
    No. *875*, 771-775
    No. *891*, 774-775, 795-796
    No. *998*, 862-863, 897-898
    No. *1015*, 898, 905, 908-911
    No. *1021*, 910-911, 922
    No. *1039*, 922
    No. *1134*, 1011
  Documents:
    NSC *107*, 1124
    NSC *107/2*, 71-76, 430-432, 526-527, 528-529, 530*n*,
    NSC *117*, 526-527 526*n*, 529*n*
    NSC *136*, 526-527, 528-529
    NSC *136/1*, 529-534, 692-701, 711-713, 771-775, 831*n*
    NSC *138/1*, 774, 774*n*
    NSC *175*, 858-864, 864
    NSC *5402*, 865-889, 897-898, 908-911, 928-930, 1009-1011, 1063-1064
  Meetings:
    87th, 21*n*, 23
    91st, 44-45
    95th, 71-76
    104th, 222*n*
    121st, 430-432
    125th, 525-529, 529-534
    135th, 692-701
    136th, 711-714
    160th, 771-775
    162d, 794-796
    177th, 854-855
    178th, 858-864
National Security Council—Continued
  Meetings—Continued
    180th, 897-898
    181st, 907-911
    184th, 922
    199th, 1008-1012
Nationalist Movement. *See* National Front.
Nationalization laws. *See* British Coal Industry Nationalization Act; Mexico; *and under* Nationalization of oil industry in Iran.
Nationalization of oil industry in Iran, 10, 25-91, 143, 250
  Antisabotage law, 69-70, 80*n*
  Nationalization laws, 289, 367, 435, 448, 465, 470, 476, 507, 549, 570-572, 576, 583, 594-595, 596*n*, 630, 636, 640, 643-645, 648, 960, 994
  Nine-Point Law, 44, 64*n*, 66, 94-95, 97-98, 100, 106-107, 110, 112*n*, 115-116, 125, 154, 959, 1025-1026
  Principle of nationalization, 102, 107-111, 116, 118*n*, 120*n*, 125-127, 129
Nehru, Jawaharlal, 887
Nemazee, Mohammad, 912, 920
Neutrality of Iran (*see also* Mutual Security Act of *1951*), 514
Nine-Point Law. *See under* Nationalization of oil industry.
Nitze, Paul H., 67-68, 194, 209, 272, 305*n*, 320
  AIOC dispute, 180-183, 353, 359-361, 401, 407, 489, 502, 651*n*
    Basis for settlement, 249-255
    International arbitration, 540-541, 558-561, 563-564, 573-574, 580-581, 589-591, 598-602, 605-606, 662-664
    Lump-sum settlement, 551, 556-557
    Oil production and distribution, 500-501
    U.K.-Iranian Oil Committee, 546-548
    U.S. position, 548-550, 714-715
    U.S.-U.K. joint proposal, 408, 492-493, 505-508, 535, 553-554
    U.S.-U.K. relations, 327-328
  Arbitration agreement, 656-658
  Economic assistance to Iran, 336-338
  Export-Import Bank loan, 552-553, 555
  IBRD proposal, 348-349, 357-358
  NIOC, 402-403, 414
Nixon, Richard M., 698, 850-851, 854-855
Nolting, Frederick E., Jr., 1057-1059, 1074-1075
Norden, Carl F., 495
N.V. Bataasfsche Petroleum Maatschappij. *See* Royal Dutch Shell.

Ohly, John H., 305311, 336-338
Oil cartel. *See* Antitrust laws and U.S. oil companies.

Oil Commission/Committee (*see also* Majlis: Special Oil Commission/Committee; Mixed Oil Commission; United Kingdom, Iranian Oil Committee), 103, 106, 109, 116-117, 120, 130, 366
Oil prices, 283, 313-314, 326, 356, 358-360, 364, 367, 477, 489, 502, 523-524, 581, 649
Oil sales (*see also* International consortium), 315-318, 320, 329, 341, 346, 428-433, 435*n*, 436, 444, 453, 507, 523, 567-569, 710, 989-990
Overby, Andrew N., 1056-1059, 1061

Page, Edward, 924-925, 1029
Pahlavi, Queen Mother, 384, 412
Pahlavi, Prince Ali Reza, 1073
Pahlavi, Princess Ashraf, 175, 412, 674-675, 781
Pahlavi, Mohammad Reza, 69, 439, 730
  AIOC dispute, 101, 135
    British personnel expulsion order, 170-173
    Harriman mission, 96, 119, 122
    Iran Cabinet proposals, 127-128
    Mosadeq and, 105, 204
    Stokes proposals, 130, 148, 153-154
  Departure plans, 681-683, 685-686
  Economic assistance to Iran, 284*n*, 285, 298-299
  Health of, 46, 94, 100
  Iranian armed forces, 799-800, 943-947, 1023-1024
  Middle East defense agreements, 850-852
  Military assistance to Iran, 306, 371-372
  Mosadeq government and, 94, 98, 173, 174-176, 180*n*, 181-182, 308, 404, 409-412
  Mosadeq and Shah conflict, 674-677, 680-681, 691-692, 706-708, 715-716, 719-721, 746-748
  Mosadeq successor (*see also* Zahedi, Ardeshir), 50-51, 186-187, 262*n*, 263, 381, 383*n*, 389-392, 396-400, 405-406, 679
  Return to Iran, 758, 786
  Supporters, demonstrations of, 688-689, 752-755
  U.K.-Iranian relations, 812, 829*n*
  U.S. support of, 89, 36-37, 150
  Visits:
    Baghdad, 782
    Jordan, 27
    Ramsar on Caspian Sea, 782, 1026
    United States, 13*n*, 185, 1037-1038, 1066-1074
  Zahedi government and, 797-801, 1012-1015, 1026-1028
Pahlavi, Soraya Esfandiari-Bakhtiari, 733
Pakistan (*see also* Turkey-Pakistan alliance)
  Iran, relations with, 770, 870, 928

Pakistan (*see also* Turkey-Pakistan alliance)—Continued
  Middle East defense arrangements, 834, 851-852, 882, 884, 886, 935, 1072, 1075
  Soviet threat, 21-22, 220-221
Palmer, Joseph II, 586
Pattinson, John M., 995
Paul, Norman, 1057-1059
Penfield, James K., 330-332
Perkins, George W., 6768, 169*n*, 180-183, 19[illegible]-196, 209
Petroleum resources in Iran. *See* Anglo-Iranian Oil Company; National Iranian Oil Company; Nationalization of oil industry in Iran; Oil Commission/Committee.
Phleger, Herman, 849-850
Pirnia, Baqer, 132*n*, 301, 762
Point IV program. *See under* Economic assistance to Iran.
Poland, 320, 329
Political refugees in Iran, 751-752
Political situation in Iran (*see also* Communism in Iran; Iran Party; Majlis; National Front; Tudeh Party), 46, 121, 361-364, 409-412, 430-443, 513-517, 666-667, 674-677, 702-703, 741-744, 872-873, 1026-1028, 1041-1042
  British policy, 459-460, 474-475, 488*n*, 489, 491, 510, 514, 780-788
  Coup d'état, 427-428, 459, 475, 701, 720, 744-745, 781-782
  Iran-U.S. relations, 534, 787
  Mosadeq government, 738-739
  Shah and Mosadeq conflict, 736-737
  U.S. policy, 689701
Prud'homme, Hector C., 360
  IBRD proposal, 301-303, 321-322, 338, 365-366, 368-370

Qanatabadi, 895, 1048
Qasem, Abol, 675
Qavam es Sultaneh, Ahme, 175, 177, 275, 382, 390-392, 399-400, 405-406, 411, 415, 417-420, 435, 440, 674, 707, 761

Radford, Adm. Arthur W., 908
Rais, 390, 392
Rau, B.N., 190, 197, 219
Raynor, G. Hayden, 814
  AIOC dispute:
    IBRD proposal, 348-349
    International arbitration, 558-561
    U.K. position, 26-28, 34-35
    U.N. resolutions, 183-185, 208-210
  Economic assistance to Iran, 336-338
  International consortium, 923-924, 931-932, 940-941, 998-999
  Political situation in Iran, 702-703
Razmara, Haji Ali, 124, 79, 183, 761
Regency Council, 783-784
Regional defense arrangements. *See* Middle East defense arrangements.
Reza, Ali, 682
Reza, Ghulam, 682

- Riahi, Brig. Gen. Taqi, 744, 753, 755, 757-758
- Richards, Arthur L., 730
  - AIOC dispute, 57*n*, 164-167, 684, 732-733, 1030
    - American oil companies, 542-543
    - International arbitration, 462-463, 540-541, 558-564, 651*n*
    - Mosadeq counterproposal, 482-483, 488-490
    - U.S. position, 714-715
    - U.S.-U.K. proposals, 553-554
  - Economic assistance to Iran, 454-455
  - Export-Import Bank loan, 921-922
  - International consortium, 899-901, 923-924, 931-932, 942-943, 1007-1008, 1043-1044
  - NSC policy on Iran states, 928-930
  - Political situation in Iran, 508-510, 688*n*
  - U.K.-Iranian relations, 814
  - U.S. position on Iran, 760-761, 928-930
- Ridgway, Gen. Matthew B., 1074-1076
- Rieber, Torkild:
  - AIOC dispute, 394
    - IBRD proposal, 301-303, 321-322, 338, 356, 366
- Rolin, Henri, 392
- Roosevelt, Kermit, 791
- Rouhani, Fuad. *See* Ruwni, Fuad.
- Rountree, William M., 50-51, 313, 319
  - AIOC dispute, 59*n*, 67-68, 100*n*, 180-183, 199, 258-260, 959
    - British personnel expulsion order, 169-170
    - Basis for settlement, 249-255
    - British position, 393-395
    - Harriman mission, 92, 119-120, 121
    - IBRD proposal, 344-346, 348-349, 352-354, 370-371
    - U.K. position, 26-27, 37-42, 43*n*, 51-54
    - U.N. resolution, 190-191
  - Economic assistance to Iran, 13, 28-30, 284-285, 311-321, 336, 338-341, 920*n*
  - Military assistance under MSA, 305-311, 375-376, 378-379
  - Political situation in Iran, 911, 346-347, 386-389
  - Razmara assassination, 89
- Rowan, Leslie, 265, 315-316, 320, 500-501
- Royal Dutch Shell, 182, 250, 265, 501, 803, 849*n*, 925, 973, 988, 994, 1029
- Ruwani, Fuad, 1006, 1018

- Saad, 339-344
- Sadiqi, 786
- Saleh, Ali Pasha, 566, 575, 577, 627, 629-630, 652-653, 686, 709, 750
- Saleh, Allahyar, 93, 211*n*, 382, 384, 386, 399, 405, 488*n*, 676, 679, 741
- Salisbury, Lord (Robert A.J.G. Cecil), 764*n*, 791*n*
- Sanjabi, Karim, 130, 211*n*, 566, 579, 580, 709
- Saudi Arabia, 76, 419, 833, 986, 1003
  - Oil prices, 252*n*, 547, 961, 989
- Saudi Arabia—Continued
  - Oil production, 223, 500
  - Soviet threat, 221, 229, 882
- Sauer, Walter C., 545
- Schwartzkopf, Gen., H. Norman, 781
- Schwind, Donald, 745
- Seddon, N.R., 63*n*, 65, 101, 104, 105
- Serpell, David Radford, 1004-1007
- Shafaq, Rezazadeh, 100*n*
- Shah of Iran. *See* Pahlavi, Mohammad Reza.
- Sharif-Emami, 1048
- Shawcross, Hartley, 116, 596, 605
- Shayegan, Seyid Ali, 757, 786, 100*n*, 674, 1027
- Shell Oil (*see also* Royal Dutch Shell), 542*n*, 852, 913, 920-921, 923-924, 932, 940-941, 943, 952, 954, 959, 963, 967, 971, 995-997, 1010
- Shepherd, Francis M., 33, 3940, 46, 48, 79, 104, 286
  - AIOC dispute, 44, 51, 52*n*, 53, 70
    - British personnel withdrawal, 98-99
    - Harriman mission, 117-121
    - Iranian proposals, 163, 165
  - Mossadeq and, 151-152, 183*n*
  - Oil nationalization law, 57-59
- Single Article Oil Bill, 1053*n*, 1062
- Smith, Kingsbury, 372
- Smith, Walter Bedell, 662-664, 748, 859
  - AIOC dispute, 795-796
  - International consortium, 909-910, 925, 930-931, 932*n*, 949-950
- Snow, Harold E., 548, 973
- Socony-Vacuum Oil Company, 849*n*, 852, 973, 1053*n*
- Soheily, Ali, 1019-1020
- Soruri, Mohammad, 100*n*
- Southard, Frank, 1057-1059
- Soviet Union:
  - Iran, relations with, 11-12, 15, 17-24, 55, 72-76, 154-155, 220-222, 229, 238-240, 257, 258*n*, 261, 308, 508-509, 513-517, 698, 734, 779-780, 886, 935-936
  - Iranian oil usage, 163-164
  - Persian Gulf, domination of, 882-883
  - U.K. and, 175, 778
- Soviet-Iranian Treaty of *1921*, 527, 529, 696*n*, 790, 868, 889
- Spain, 194
- Sparkman, John J., 544
- Special Oil Commission/Committee. *See* Majlis.
- Stalin, Iosif V., 692, 695, 698, 711
- Standard Oil Company of California, 852, 973, 1003, 1053*n*
- Standard Oil Company of New Jersey, 850, 984*n*, 1050, 1053*n*
- Standard Oil France, 852
- Standard Oil Texas, 852
- Stassen, Harold E., 661, 695-696, 699, 728*n*, 795-796, 860
- Steel, Christopher, 555*n*

Sterling payments, 604-605, 639, 641, 954, 974, 986-987, 1005-1007, 1009, 1023, 1029-1031, 1035-1037, 1039-1041, 1047
Stevens, Roger B., 890*n*, 1005
  AIOC dispute, 962, 1019
  International consortium, 959, 975-976, 1004*n*
  Middle East defense, 939-940, 947-948
Stokes, Richard R., 118*n*, 128-129
Stokes mission, 92, 130-148, 150, 162*n*, 204
Strang, William, 147*n*
  AIOC dispute, 493-494, 499-501, 504-506
Stutesman, John H., Jr., 814, 1051, 1062
  AIOC dispute, 86-88, 204
    Compensation issue, 964-965
    International arbitration, 540-541, 562
    U.S.-U.K. joint proposal, 471-472
  Economic assistance to Iran, 429-430, 454-455, 1057-1059
  Hoover factfinding mission, 809-810
  International consortium, 949-950, 998-999
    Agency-type arrangement, 1007-1008
    Memorandum of Understanding, 984-985
    Percentage of participation, 940-941
  Middle East defense arrangements, 947-949
  Military assistance to Iran, 933-934, 1063-1066
  Oil nationalization law, 57-59
  Political situation in Iran, 508-510, 741
  Shah's visit to U.S., 1073-1074, 1076
  Zahedi government, 760-761, 1017
Suez Canal, 561*n*, 881
Sugar trade, 425, 453, 569, 717-718, 734, 794, 878-879
Swensrud, S.A., 849*n*
Switzerland, 581, 583
Syria, 243, 694

Tafazoli, 1048
Taqizadeh, 46, 406, 410
Technical Cooperation Administration, 306-307, 332-333, 339, 546, 564-565, 717-718
Texas Oil Company, 973, 1003, 1053*n*
Thorp, Willard L.:
  Economic assistance to Iran, 285-286, 336-338
  Export-Import Bank loan, 67, 159-161
Toilers Party, 1027
Treaty of Friendship Between Persia and the Russian Socialist Federal Soviet Republic. *See* Soviet-Iranian Treaty of *1921*.
Truman, Harry S., 24, 44, 518*n*, 888
  AIOC dispute, 59-62, 84-85, 258, 283, 539
    IBRD proposal, 348-349
    International arbitration, 449-451, 457-458, 469-471
    Jones visit, 446-447
Truman, Harry S., 24, 44, 518*n*, 888—Continued
  AIOC dispute—Continued
    U.N. resolutions, 222-224
  Economic assistance to Iran, 241-244, 271, 343, 428
  Political situation in Iran, 430-432
Tudeh Party, 16, 44, 49, 50, 55, 70, 101, 185, 209, 238-240, 257, 261, 319-320, 328-330, 346-347, 350, 399, 415, 422, 427, 432, 434, 438-439, 459, 480, 508-509, 514-516, 534, 690-693, 724-725, 727, 733, 740, 742-744, 747-478, 752-754, 756-758, 772, 779, 788, 837, 841, 867, 892, 1027-1028, 1042
  Mosadeq, demonstrations for, 738-739
  Shah, demonstrations against, 782-784
Tudeh press, 764, 782, 788
Turkey:
  AIOC dispute, 197, 219
  Iran, relations with, 74, 770, 870, 928
  Middle East defense arrangements, 833-834, 851-852, 881-882, 884, 886, 935, 1072
  Soviet threat, 2122, 221, 388
  U.S. economic assistance, 419, 628, 805
Turkey-Pakistan alliance, 929, 929*n*, 937, 943-946, 948, 955, 957*n*, 1075-1076
Tuttle, Elbert P., 859

Union of Soviet Socialist Republics. *See* Soviet Union.
United Kingdom (*see also* Anglo-Iranian Oil Company; Nationalization of oil industry in Iran; United Nations: U.K. resolutions), 887
  Economic assistance to Iran, 407-408
  Election results, 244-245
  Financial situation, 279-280
  Iran, relations with:
    Resumption of, 777-779, 801, 829-831, 835-836, 846-848, 867
    Severance of, 459-460, 468, 498-499, 503-504, 507
  Iranian Oil Committee, 546-549, 582*n*
  Iranian policy, 877-878
  Threat of force in Iran, 28*n*, 35, 54-56, 65, 74, 131, 151, 169*n*, 170*n*, 171*n*, 171-173, 194
United Nations, 12, 533-534
  Security Council on U.K.-Iran case:
    Actions on, 183-185
    Mosadeq and, 192, 224-230, 230, 275, 469
    Rule of law argument, 199, 208*n*, 209
    U.K. resolutions, 173-174, 175*n*, 190-196, 205-210, 222-226, 230-231
    U.S. resolution, 188-190, 199-202, 205-208
  Spanish case, 194
United States Marketing Council, Inc., 571*n*

Vandenburg, Gen. Hoyt S., 220-222, 697, 700
Varasteh, Ali, 60*n*, 63, 65, 130

Venezuela, 228, 229
Vigderman, Alfred G., 305-311

Walters, Col. Vernon:
  AIOC dispute, 121, 213-218, 224-230, 231-236, 269-272
  Economic assistance to Iran, 241-249, 269-272
Warne, William E., 272, 339, 564-565, 775-777, 792-793
Waugh, Samuel C., 1057-1059
Webb, James E., 8, 163-164
  AIOC dispute, 180-183, 194, 258-260, 267-268
    Basis for settlement, 249-255
    Harriman mission, 156-159
    IBRD involvement, 287-288
    U.N. resolutions, 183-185
  Economic assistance to Iran, 284-286
  Export-Import Bank loan, 159-161
  Political situation in Iran, 275-278
Whitman, Ann, 1038*n*
Wilson, Charles Erwin, 695, 699, 712-713
Wisner, Frank, 739
World Bank. *See* International Bank for Reconstruction and Development.
Wright, Denis, 857, 890, 913*n*, 969
  International consortium, 914, 916-917, 996
Wright, Vice Adm. Jerauld, 955-958

Yazdanpanah, Lt. Gen. Morteza, 372, 409-410, 422
Yugoslavia, 219, 231

Zafrulla Khan, Mohamed, 851
Zahedi, Ardeshir, 745-746, 894
Zahedi, Maj. Gen. Fazlollah (*see also* Zahedi government), 771, 773
  Battle Act, statement re, 789-790
  Economic assistance to Iran, 792-794
  Iran-Soviet relations, 779-780
  Majlis elections, 811, 894-896, 899
  Middle East defense agreements, 851-852
  Prime Minister:
    Appointed, 745-747, 751, 753, 782, 783
    Candidacy and overthrow of Mosadeq government, 427, 676, 681, 689, 691, 720-721, 725, 726-727, 781
  Replacement of, 837, 1012-1015
  Shah and, 679, 724-725, 730-731
  U.K.-Iranian relations, resumption of, 812, 846-847
Zahedi government:
  Cabinet member selection, 763, 787-788
  Oil settlement, 777-779, 787, 804*n*, 1028, 1048-1049
  Shah and, 1022*n*, 1027-1028, 1048-1049
  U.K. position, 838-839
  U.S. position, 759-760, 760-761, 1012-1015, 1017, 1027-1028

Zia, Seyid, 27, 35, 153, 175
Zimmerman, Gen. Wayne C., 421
Zolfagari family, 719, 720